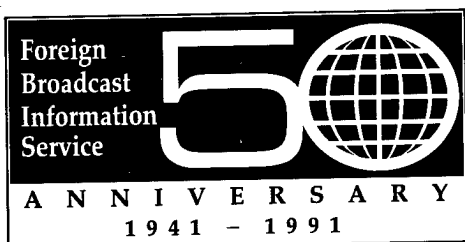


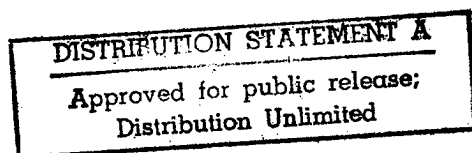
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# ***JPRS Report***

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# **China**



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# China

JPRS-CAR-91-046

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## Differences Between Democratic, Scientific Socialism

91CM0453A Shanghai SHEHUI KEXUE [SOCIAL SCIENCES] in Chinese No 4, 15 Apr 91 pp 2-6

[Article by Yuan Bingda (5913 4426 6671) and Chen Qide (7115 0366 1795), Shanghai CPC Committee Party School: "Differences Between Democratic Socialism and Scientific Socialism"]

[Text] Democratic socialism, a term that all but disappeared in socialist countries for a long 40 years, has resurfaced as a popular conversation topic after a number of socialist countries flaunted its banner in recent years. A lot of ideological confusion has arisen in the wake of its resurgence, clouding people's understanding, which cannot but attract our attention and set us thinking. Analyzing the fundamental differences between democratic socialism and scientific socialism so as to lay bare the former's true nature is a prerequisite for affirming our faith in the latter.

### I. As Different as Night and Day: Fundamental Differences Between Modern Democratic Socialism and Scientific Socialism

In 1951, the Socialist International was founded in Frankfurt and adopted a declaration of principles called "The Goals and Mission of Democratic Socialism." Henceforth democratic socialism gradually replaced socialist democracy as the official ideology of various social democratic parties and socialist parties. Democratic socialism is a direct continuation and development of the social democracy of the second half of the Second International. Despite new additions to its content, the two shared basically the same principles. Thus it is only inevitable that modern democratic socialism is different from and opposed to scientific socialism in major ways.

The differences between democratic socialism and scientific socialism are epitomized in the following five ways:

#### A. Upholding or Rejecting Marxism

Democratic socialism embraces the world outlook of the Socialist International and advocates the pluralization of guiding thought. It teaches that socialist thought has multiple sources and that there is no need for a unified socialist world outlook. In so doing, it rejects the preeminence of Marxism. It adopts as its own Christian teaching, the Declaration of the Rights of Man of the French Revolution, Kantian ethics and enlightenment ideas, Hegel's dialectical historicism, the Marxist method of criticism, and Eduard Bernstein's revisionism, coupled with other schools of thought including bourgeois economics. A hodgepodge of ideas were thrown together in a melting pot, which democratic socialists dignify as "pluralism" and "democratic thought."

Scientific socialism teaches that the socialist movement and socialist system should be guided by Marxism. As the crowning glory of the proletarian world outlook and the spiritual civilization of all mankind, Marxism is unequaled by any other body of thought and is a leader in the realm of ideology. Taking Marxism as the leader means adopting the standard, viewpoint, method, and basic principles of Marxism and combining them with the reality in the nation in the current stage to guide socialist revolution and socialist construction, study new conditions, review new experience, and solve new problems. Marxism is an open scientific system bursting with vitality that evolves with science and practice and marches forward endlessly.

#### B. Adhering to or Abandoning Communist Objectives

Democratic socialism has abandoned the objectives of struggling for communism. Democratic socialists claim they have nothing in common with communists, that the two are mutually exclusive and are opposed to each other. "The communist system should be eradicated." Proceeding from the usual rational and ethical values like freedom, equality, justice, and mutual assistance, they declare that the objective of democratic socialism is to "pursue an order where there is social justice, where people live happily, and where there is freedom and world peace" and to "establish a society where free men can work together as equals." To democratic socialists, the various ills and contradictions of capitalist society are not rooted in capitalism itself, or in class exploitation and oppression, but in the violation of all the general rational or ethical principles of man as mentioned above. They want to create a multi-party all-people welfare state that practices parliamentary democracy and a mixed economy.

In compliance with the objective laws of human social development and based on reality, scientific socialism seeks to create a socialist communist system. Scientific socialists see the substitution of socialism for capitalism as historically inevitable, the unavoidable outcome of the conflict between capitalist social productive forces and relations of production, between the economic base and the superstructure, and between the proletariat and the bourgeoisie. The socialist system they want to establish is characterized by the public ownership of means of production, distribution according to work, common prosperity, the planned proportionate development of the national economy, the exercise of power by the proletariat and the working people, and the communist party as the core of leadership. They insist that the basic characteristics of socialism be integrated with the conditions in each nation. Their ultimate goal is the achievement of communism.

#### C. Supporting or Rejecting the Leadership of Proletarian Political Parties

Social democratic parties and socialist parties obliterate their proletarian nature and are opposed to democratic centralism. They openly declare that the party "is a



community made up of people with different beliefs and thoughts," not the party of a class, but the "party of the people," "the party of the whole people," "the reformed party," and "the national party." They argue that "owing to changes in productive forces, the working class has lost its leading role as a driving force of history." Socialism, they declare, will be led by those social strata that have emerged with the development of productive forces, not the proletariat. In line with their advocacy of democratization and pluralization, moreover, they oppose democratic centralism as a method of party organization, claiming that democratic centralism will lead to intra-party dictatorship. Instead they favor unconditional democracy within the party, that is, the decentralization of power, allowing different factions within the party and rejecting the need for strict organizational discipline.

Scientific socialism insists that the communist party is essentially the vanguard of the working class and adheres to the principle of democratic centralism. Faced with the new scientific and technical revolution, the working class remains the representative of advanced productive forces, the embodiment of advanced relations of production, and the people charged with the historic mission of overthrowing capitalism and building socialism and communism. The communist party must wholeheartedly continue to maintain its nature as the vanguard of the working class. Democratic centralism is the basic principle and system for organizing the communist party and the political criterion for handling intra-party relations correctly. Only such a party can form the strong leadership core to lead the socialist revolution and socialist construction.

#### D. Remaining Steadfast to or Opposing the Teaching of Class Struggle and Proletarian Dictatorship

Democratic socialism considers the road of peace, democracy, and parliamentarianism the only way to achieve socialism. As democratic socialists see it, only the parliamentary way will put them in power. That is, socialist parties and social democratic parties should compete in parliamentary elections and win a majority of votes to become the ruling party. They can then proceed to reform society without undermining the capitalist system and bring about a "welfare state for all people" and class cooperation. The two systems will "converge" and we will "march peacefully" onto socialism. In the course of realizing socialism, they deem democracy as totally inconsistent with dictatorship, arguing that "democracy is higher than anything else." They "oppose all dictatorship," thereby fundamentally rejecting the class attribute of democracy and dictatorship, and attack proletarian dictatorship all out.

Scientific socialism calls for the achievement of socialism through class struggle, the proletarian revolution, and proletarian dictatorship. Since nations differ in historical conditions and circumstances, the proletariat in the various nations must follow diversified paths to seize power. Thus far, however, the seizure of political

power in all socialist nations in the real world has been accomplished through armed revolution. There is as yet no precedent of any country seizing power and realizing the ideals of socialism via the democratic parliamentary road. The proletariat may use universal suffrage as a weapon to oppose bourgeois rule, but one must not confuse bourgeois democracy with socialist democracy. After the proletariat seizes power, it must establish its own regime as a means of transforming society and abolishing classes. This regime is the proletarian dictatorship, otherwise known as the people's democratic dictatorship. In a proletarian dictatorship, democracy and dictatorship are dialectically united, not mutually exclusive.

#### E. Insisting on the Public Ownership of the Means of Production or Preserving Private Ownership

Democratic socialists believe that socialism is achievable without changing capitalist private ownership of the means of production. To democratic socialists, the ownership of the means of production is not the litmus test in determining the nature of society. Thus they favor a mixed economy where state-owned enterprises, private enterprises, and other forms of economy coexist within the framework of private ownership. They emphasize that private ownership should play a leading role in the social economy and that the government must protect and encourage private ownership in its policies. Moreover, such a mixed economy should be based on a market economy.

Scientific socialists argue that if there is one thing that distinguishes socialism from capitalism, it is that under socialism, means of production are owned by society as a whole. In the case of some economically backward nations that have turned socialist, the public ownership of means of production remains merely a leading or guiding sector of the economy, not the only economy in society. With public ownership as the core, scientific socialists think we can develop a variety of economic forms and make the individual economy, private economy, and foreign-funded enterprises play a supplementary role that is both necessary and beneficial to the socialist economy. The idea is to bring out the superiority of the socialist economy even better and accelerate its development, but certainly not to weaken or abolish the leading role of public ownership, let alone bring about economic "privatization." The socialist economy is a planned commodity economy based on public ownership where planned guidance is accompanied by an active role for market regulation.

Democratic socialism claims that it represents the "third way" or "middle way" that is different from both communism, that is, scientific socialism, and capitalism. However, given the fact that its principles are diametrically opposed to scientific socialism, we can see that it has in effect turned its back on the basic tenets of socialism and tilted toward the political and economic models of capitalism as well as its values and beliefs. The practice of democratic socialism has not exceeded the

confines set by capitalism, so it cannot undermine capitalism at its root. Criticizing "economism," a Russian variant of Eduard Bernstein's revisionism, Lenin wrote, "The issue can only be this: either the bourgeois body of thought or the socialist body of thought. There can be nothing in between. Therefore, any disregard for or departure from socialism signifies a reinforcement of bourgeois thinking." (*Selected Works of Lenin*, Volume 1, p 256) We believe that we should take a similar stand in evaluating democratic socialist thought.

## II. Democratic Socialism and Scientific Socialism: A World Apart

Democratic socialism and scientific socialism are two different bodies of thought not only because of fundamental differences in their theories and principles, but also because they differ in their class basis and theoretical basis, something they rely on for their development. In addition, there are marked differences in their nature and scope of applicability.

First, the two bodies of thought differ in class basis and class attributes. The class basis of scientific socialism is the proletariat as an independent social force. Of the classes opposed to the bourgeoisie, only the proletariat is the true revolutionary class. Because of its advanced and revolutionary nature, the proletariat is the social force for transforming capitalism. The practice of the proletarian struggle raises the need to create scientific socialism, while the experience accumulated by the workers' movement provides the creation and development of scientific socialism with a foundation and conditions. Scientific socialism is a science of the laws of development of the proletarian liberation movement. It represents the fundamental interests of the proletariat and the masses of working people.

The class basis of democratic socialism is more complicated. The class basis of the social democracy of the old Second International was the labor aristocracy bribed by the bourgeoisie, a host of urban petty bourgeois strata, and a smattering of intellectuals. Since World War II, because of the rise of the scientific and technical revolution, the class structure of Western European nations has changed radically. In Western Europe, the number of workers directly involved in physical labor of a production nature has dropped sharply, while managerial and technical personnel, office workers, and other intellectuals have grown rapidly. Along with the petty bourgeoisie, these groups have come to be known as the "middle stratum" in the West. These people, whose living conditions better than those of ordinary workers, favor incremental social change. Since the end of World War II, the "middle stratum" has come to make up a large part of the social democratic parties in Western Europe and the trend is that they will continue to expand. Since the 1950's, social democratic parties of Western Europe no longer refer to themselves as working-class parties, instead describing themselves as "parties of the whole people," "parties of the people," and "parties of all mankind." Inevitably they have drawn

into themselves some bourgeois elements and a number of strata from the petty bourgeoisie. By and large, democratic socialism reflects the demand for reform of the middle stratum and some workers. Moreover, with some of their right-wing leaders defending and singing the praise of capitalism while vilifying and attacking communism, social democratic parties also reflect in part the demands of the bourgeoisie.

Second, the two bodies of thought differ in theoretical basis. Scientific socialism is founded on the two theoretical cornerstones of Marxist historical materialism and the theory of surplus value. Historical materialism is the scientific world outlook and methodology for correctly understanding social historical development. The theory of surplus value, on the other hand, elucidates the law of development of the bourgeoisie, thereby revealing the historical trend of the inevitable replacement of capitalism by socialism, and demonstrates that the proletariat is the grave-digger of the bourgeoisie and a new force for building a new society. The birth of these two major theories laid a solid theoretical foundation for the transformation of socialism from fantasy into science.

The theoretical basis of democratic socialism is the philosophy and economic and political thinking of the bourgeoisie. Its world outlook and methodology are mainly subjective idealist neo-Kantianism and ethical socialism. Born in the latter half of the 19th century, these ideas are opposed to scientific socialism and hold ethical and moral principles to be the true cause of social development. Based on these ideas, democratic socialists conclude that socialism is the product of the realization of such values as democracy, equality, freedom, justice, and mutual help. Since capitalism violates these moral principles, they reason, it should be reformed. Their reasoning sidesteps the substantive issue of what is inherently wrong with capitalism, which explains why democratic socialism becomes the apologist of the bourgeoisie. Economically the theoretical basis of democratic socialism is Keynesianism, welfare economics, and other bourgeoisie economic theories. In line with these ideas, democratic socialists have called for state intervention in the economy, nationalization, and the establishment of a welfare state.

Third, the two bodies of thought are different in nature. As a science seeking the liberation of the proletariat, scientific socialism is by its very nature revolutionary and critical. It is completely different from the revolutionary proposals of other classes in history. It puts forward such thoroughly revolutionary ideas as the abolition of the exploitation system in all forms and of all classes and the replacement of the private ownership of the means of production by public ownership. Scientific socialism has also critically inherited and absorbed the best of thousands of years of human civilization. Scientific socialism is not opposed to any form of reform, but it regards reform as the byproduct of the revolutionary struggle for the seizure of political power. Reform must subordinate itself to and serve the basic interests of the proletariat. Because of its thoroughly revolutionary

nature, scientific socialism has been opposed to and treated with hostility by the Western bourgeoisie and attacked and sabotaged by opportunists and reformists ever since its birth more than a century ago.

As a product of compromise with monopoly capitalism, democratic socialism inherently can be nothing more than a variation on the theme of reformism. Democratic socialists consider reforming the capitalist society the only way to achieve change and are staunchly opposed to social revolution. On the one hand, they expose some of the failures and evils of capitalism and advocate improving and reforming it within the bounds allowed by the capitalist system. On the other hand, they glorify the capitalist system, praise the vitality of the capitalist system of private ownership and the virtues of the democratic political system, obliterate the class nature of bourgeois states, preach class cooperation, and do their level best to oppose the teaching of proletarian revolution and proletarian dictatorship. It is precisely because of its reformist nature and its unmistakable anti-communist flavor that Western monopoly capitalists do not feel threatened by it. On the contrary, they consider it another option that can be used to neutralize the impact of scientific socialism and defend and improve the capitalist system. Essentially democratic socialism is bourgeois social reformism.

Finally, the two bodies of thought differ in their scope of application. Scientific socialism is a compass that guides the proletariat and advanced people worldwide in their quest for liberation. It is a universally applicable truth. It is a body of thought that is open and that continuously absorbs the fine cultural achievements created by mankind. The vitality of scientific socialism is that it develops endlessly as science and practice develop, that it can be combined with the actual revolutionary practice of any nation in any period of time, and that it ceaselessly analyzes and solves the new conditions and new problems that emerge in the practice of communism in order to enrich and improve itself all the time. In the more than 100 years since its inception, scientific socialism has become a giant straddling the world from a so-called "phantom" roaming the European continent. Practice proves that scientific socialism is widely applicable in space and time. Its glory will shine all the way to the day when the International becomes a reality.

Because its guiding thought is a confused jumble of many ideas, its class basis is narrow, and it is inherently a form of reformism, there are necessarily limits on the development of democratic socialism. Ever since its founding, the Socialist International has consistently worked to spread democratic socialism around the world and make it a global idea. For years, though, its applicability has essentially been restricted to developed capitalist nations in Western Europe. Democratic socialism has remained a merely regional ideology. Given its ties to a specific set of conditions in Western Europe—a developed economy, a deep-rooted parliamentary tradition, a strong labor organization, and a powerful workers' movement, other countries and regions which try to copy

democratic socialism will necessarily go against their national conditions and run into chaos. For instance, the "Swedish model," much touted by the Socialist International, has been adopted by some socialist nations in recent years. Yet, according to a number of Western analysts, "The 'Swedish model' is made of special materials and an extraordinarily symmetrical class structure. Any attempt to duplicate it is absurd." Since the 1970's, democratic socialism has been shedding its Eurocentrism gradually and begun reaching out to Asia, Africa, and Latin America in an attempt to influence those places. It even boasts a number of member parties in certain parts of Asia, Africa, and Latin America. Be that as it may, most of these parties were founded after World War II and have no real ties with the Second International. Nor do they have a deep-seated social democratic tradition. Moreover, they are so different from Western Europe in terms of history, society, and the level of economic development that many of these parties are actually nationalist parties pursuing national socialism or bourgeois socialism.

### III. A Volatile Situation—Final Chapter in Contest Between Scientific Socialism and Democratic Socialism Is Yet To Be Written

Over the past year, tumultuous political changes occurred in a number of socialist nations during the course of reform, which sent their communist parties scrambling to rename themselves as socialist parties or social democratic parties and declare that they would pursue the ideals of democratic socialism. The Socialist International announced with no small measure of self-satisfaction that the democratic socialism of social democratic parties of Western Europe has now become the "inspiring yardstick for socialist nations in their push for reform." Reactionary forces at home and abroad and people persisting in bourgeois liberalization took advantage of the opportunity to proclaim noisily the "grand failure of communism" and to announce that the "seven decades of socialism have been seven decades of failure" and that socialism has "lost its *raison d'être*" and "appeal," and so on and so forth. Undeniably the volatile situation in which some socialist nations found themselves in 1989 was extremely grim. With Western capitalist nations stepping up their peaceful evolution strategy and democratic socialism taking the opportunity to infiltrate and spread, scientific socialism now confronts a severe challenge.

However, communists who uphold Marxism will never lose their faith just because of the temporary complications facing scientific socialism. In the same way that the development and consolidation of any new-born social system unavoidably runs into a string of difficulties and complications, the improvement and consolidation of the socialist system will certainly not be smooth sailing. The difficulties it will encounter will definitely dwarf those faced by all other burgeoning social systems. In the course of reform, however, socialism will give birth to new developments in the socialist cause. Thus the rapidly changing situation today is not carved in stone; it

has no permanent significance. Nor will it change the general trend, which is the development of scientific socialism.

Take a look back at history. The parting of the ways between scientific socialism and democratic socialism was caused by the revisionists and opportunists of the Second International betraying socialism and surrendering to the bourgeoisie. In this sense, therefore, the change of scientific socialism into democratic socialism today is a regression. After one year of change, it is clear that this regression will inevitably bring about a series of undesirable consequences for the socialist cause. If socialist nations do not remain steadfast to the basic principles of scientific socialism and fail to adhere to the four cardinal principles, they will lose sight of the real nature of democratic socialism and tilt toward democratic socialism, thereby throwing down the drain the fruits of victory won by the blood and lives of countless people with lofty ideals. Only if we rise up to the challenge posed by democratic socialism in the thoroughly materialistic spirit of Marxism and work to eliminate its influence endlessly can we ensure that scientific socialism will develop forever under the new set of historical circumstances.

#### **Zhu Rongji's Political Career Profiled**

91CM0438B Hong Kong KAIFANG [OPEN  
MAGAZINE] in Chinese No 4, 15 Apr 91 pp 26-27

[Article by He Pin (0149 7340): "Many Difficulties in Zhu Rongji's Career—Getting From Shanghai to Beijing"]

[Text] **Zhu Rongji has advanced smoothly in his official career going from Shanghai to Beijing, and from China abroad. One might term him a resourceful man who keeps on and knows how to finagle. Still, his base is very weak. He lacks a strong backer, and he faces too many venal officials.**

Zhu Rongji's promotion to deputy premier of the State Council did not surprise me. In July 1990 I published an article citing Zhu Rongji's accomplishments that noted that Zhu is the only provincial or municipal cadre in the whole country who served as both a CPC committee secretary and an administrative chief, and that he is also a standout among an extremely small number of Chinese Communist personages who are popular both at home and abroad. Naturally, he has advanced smoothly in his official career. However, in less than a year's time, he has entered the Zhongnanhai power center, and I never thought that his rise would be this fast. It is for this reason that I hold my breath about Zhu Rongji's career. He is too impatient, and his political foundation is too shallow. A political foundation is greatly desirable among the bigwigs who get into Zhongnanhai.

#### **Deng Xiaoping Taken With Zhu Rongji**

One year while visiting Wuhan, Deng Xiaoping discovered Wang Zhaoguo who subsequently rose straight up to

the Central Committee. In recent years, Shanghai has become a favorite spot in which Deng has stayed for three years in a row. First Jiang Zemin was anointed master of 1.1 billion Chinese; then "the Pudong region, which will be more open than the special economic zones" was approved; and now Zhu Rongji has been sent to the capital of the nation.

Although Li Peng said in the proposal he delivered to the National People's Congress (NPC) on the appointment of Zhu Rongji, Zou Jiahua, and Qian Qichen that the three men staunchly supported the Central Committee during the 1989 disturbances, actually an allowance was made for Zhu Rongji in taking action against the disturbances in Shanghai. When the news of the 1989 "4 June" massacre reached Shanghai, the entire populace was saddened and indignant. A train was burned at Guangxin Crossing, and traffic throughout the city was blocked. Faced with the loss of control in Shanghai, reportedly the hardline faction in Beijing demanded that Zhu Rongji enforce martial law in Shanghai. Zhu refused, saying "I have my own way." On the night of 8 June, he made a television address to the people throughout the city in which he announced that Shanghai would not be placed under military control. He also said that "historical truth will ultimately become known to all," gaining the "understanding" of Shanghai's people. This was Zhu's "improvisation in a tumultuous situation." Zhu Rongji's technique earned the acclaim of high ranking cadres in other provinces and municipalities. Reportedly, Deng Xiaoping also appreciated it.

Deng Xiaoping went to Shanghai for three consecutive years—1989, 1990, and 1991—to demand that Shanghai increase its payments to the national government. Zhu Rongji took the opportunity to sell Deng on an economic strategy of "tilting eastward" with Shanghai as a base. Zhu's reasons were as follows: 1. Historically Shanghai has been a politically stable region. 2. Shanghai has 3 million industrial workers, who are an important force for Shanghai's stability and the foundation for its development. 3. Historically, Shanghai has had a superb production structure with plentiful technical strength. 4. Shanghai provides the central government one-fourth of the country's revenues. Maintenance of this financial contribution requires that Shanghai be developed. At Chinese New Year's time in 1990, Deng Xiaoping gave Zhu Rongji money packet gifts for his children, and agreed with the idea of the Pudong development zone.

#### **Rather Abundant Benefits From the Selling of Pudong**

During June and July 1990, Zhu Rongji visited Hong Kong, Singapore, and the United States where he sparked a news blitz. Not only was his the first visit to Hong Kong and the United States of one of China's highest ranking officials since "4 June" to repair Communist China's image, but it was also an effort by Zhu to gain name recognition for the Pudong development zone and attract investment in it.

Zhu Rongji openly expressed his appreciation of Hong Kong's development, which could provide lessons for Shanghai. He said: "In 1949 very many people from Shanghai went to Hong Kong to take part in its development. They stimulated Hong Kong's economy. It is hoped that in 1990 some people from Hong Kong may return to Shanghai to help Shanghai's development." He also encouraged Hong Kong reporters to write more critical articles on Shanghai. He even said that "no matter what kind of base Hong Kong is, I like to visit it." These words left a good impression on the people of Hong Kong.

In mid-July, Zhu Rongji told the United States that the Chinese mayors delegation brought the hopes of the Chinese people, and that he also did not feel relaxed about his task in visiting the United States. While in China he had heard that the United States was "hot on the Soviet Union" and "hot on Eastern Europe," but "cold on China." No matter who was hot and who was cold, one could not underestimate the important significance of relations between China and the United States in the international strategic setup. Development of relations between the two countries would certainly benefit world peace and international cooperation. He even invited American congressmen to visit Shanghai to "discuss human rights issues for three days and three nights." Zhu Rongji's "enthusiastic reception" in the United States also surprised him greatly.

In addition, Zhu Rongji held talks with businessmen in Hong Kong, Singapore, and the United States, taking a large amount of investment in the Pudong development zone back to China with him. Noteworthy was that Deng Xiaoping and Jiang Zemin also personally went into action to attract investment in the Pudong development zone.

In April 1988, Zhu Rongji took over the job of mayor of Shanghai from Jiang Zemin who had been appointed secretary of the Shanghai Municipal CPC Committee. He became the seventh mayor of Shanghai since the Chinese Communist accession to power.

#### **Outstanding Job of Presiding Over Shanghai Government**

In 1928, Zhu Rongji was born in that birthplace of Mao Zedong, Liu Shaoqi, and Hu Yaobang—Hunan. His family was poor, and both his parents died early; consequently, he developed an independent, driving personality. He dearly loves to read a wide range of subjects, and in 1947 he passed the entrance examination to the electrical engineering department of Qinghua University where he became chairman of the students association. He devoted himself to anti-Kuomintang student activities at the school, and in 1949 he entered the CPC. Following graduation in 1951, he went to work in the North East Ministry of Industry where he did work on an industrial economy for a long time. In 1957 he was condemned for some statements he made and classed a rightist. He was sent down to the countryside to do

manual labor for five years. This left him with a strained muscle in the calf of one leg, and also gave him a real understanding of mainland life at the bottom level. In 1978, he came to the favorable notice of economist Ma Hong and was appointed director of the Research Office of the Industrial Economics Research Institute of the Chinese Academy of Sciences. In 1979, he returned to the State Economics Commission where he held positions as bureau chief, deputy director, and deputy secretary of the party organization.

Zhu Rongji, who lacked experience in being in charge of a whole locality, took charge of the Shanghai government and accredited himself extraordinarily well. He made stability and cohesiveness the first step in governing and building Shanghai. He said the people regard food as heaven; therefore, stabilization of "market baskets" can stabilize popular morale, making other tasks easier to accomplish. In straightening out public transportation, clearing clogged roads, rectifying service industries, cleaning up upstream pollution of the Huangpu Jiang, and building more housing, Zhu Rongji acted with boldness and resolution, earning the praise of the city's people.

Except at extremely formal occasions, Zhu Rongji never reads from a prepared draft when making a public speech. He likes an extemporaneous, give-and-take style at "questioning" sessions. The tightness of his logic, the way in which he sorts out issues, and the vividness of his delivery enthrall those who listen to what he says, and they concentrate on whatever he is explaining. His manner, his learning, and his solid work style gradually made the ordinarily not very polite Shanghaileaders accept him.

#### **Obstacles to Zhu Rongji's Career**

There is no doubt that Zhu Rongji's political base is weak. First of all, although he worked for a long time in the economic sector of the central government, in Beijing where "officials are as thick as the hair on a dog," he was an unprepossessing person who seemed never to have much opportunity to build his own power network. Second, since he is neither the orphan child of a martyr or the son of an important minister, and lacks relatives in high places, except for Deng Xiaoping's appreciation of him at the moment, he lacks a stable "backstage manager." Third, since Zhu Rongji was not in charge of the Shanghai government for a long time, it is difficult to say that he has built his own local power.

Zhu Rongji is also an impatient person. He had not been in Shanghai for more than a month or two when several bureau level cadres who were well known and whom no one had ever dared offend were publicly abused by him to the point where they had no choice but to leave their positions. For this reason, some people in Shanghai put out the rumor that "bureau-level cadres were facing major job changes" in Shanghai in an effort to galvanize forces to put pressure on Zhu Rongji. Hard pressed, Zhu Rongji had to put the originally planned bureau level

cadre changes on hold temporarily, offering the following explanation everywhere: "When I see things are not handled well and that the people are complaining about us, I become anxious! My temper is bad, and I may have offended some comrades. Please bear with me." He is also fond of citing an ancient admonition as follows: "If the people do not stand in awe of me, but stand in awe of my honesty, honesty becomes power." He has been tenacious about cadre honesty in government, and he has publicly asked that everyone keep his eyes on Shanghai's 506 cadres in charge of bureaus. As a result, "venal officials" are deeply resentful.

In addition, many foreign commentators suppose that Zhu's rise means that Jiang Zemin is gradually forming a group of loyal supporters. I do not deny this. Nevertheless, I secretly feel that Jiang's and Zhu's partnership is just a temporary phenomenon, and that the possibility of a future falling out cannot be ruled out. Of course, Zhu Rongji's potential political enemies are more than Jiang

Zemin alone. They also include the likes of Li Peng, Chen Xitong, and Li Ximing, who can make things hot for him.

#### Zhu Rongji's Background Viewed

91CM0416B Hong Kong CHAO LIU [TIDE]  
in Chinese No 50, 15 Apr 91 pp 55-57

[Article by Yen Jen-k'uan (6056 1804 1401): "Third Generation on Beijing Political Scene—Zhu Rongji, Stalwart of Economic Reform, Promoted to Vice Premier"]

[Text] On 8 April, the annual session of the National People's Congress passed the reorganization of State Council personnel determined by the Political Bureau of the Central Committee. Sixty-three year old Zhu Rongji, party secretary of the Shanghai Municipal Party Committee, and mayor of Shanghai, was promoted to vice premier of the State Council. It is expected that he will be in charge of structural reform of the economy and economic opening to the outside.

#### Overview of Zhu Rongji, Vice Premier, Alternate Member of the CPC Central Committee

Category	Summary
Birthplace	Changsha, Hunan, 1928
Education	graduated from Qinghua University's Electrical Engineering Department in 1951
CPC membership	joined in 1949; listed as "rightist" in 1957; rehabilitated in 1979
Experience	1951-1978: assistant head, Northeast Government Industrial Department Planning Section Production Office; assistant department head, State Planning Commission (demoted to researcher after 1957); assistant chief engineer, Ministry of Petroleum's Pipeline Bureau Electrical Communications Company. 1979-1987: head of a certain office in the Chinese Academy of Social Science's Industrial Economic Research Institute; department head, State Economic Commission; assistant bureau chief, bureau chief, Technical Transformation Bureau; president, professor, Qinghua University's Economic Management Institute; vice minister, State Economic Commission 1987-1991: deputy party secretary, Shanghai Municipal Party Committee, and mayor, Shanghai; alternate member, 13th CPC Central Committee; party secretary, Shanghai Municipal Party Committee, and mayor, Shanghai; vice premier, State Council

Source: compiled by CHAO LIU's Materials Office, 4 April 1991

#### Formerly a Rightist, Rehabilitated in 1979

Zhu Rongji, along with Guangdong's Ye Xuanping and former Hainan provincial governor Liang Xiang are stalwarts of economic structural reform. Since he became mayor of Shanghai in 1987 (replacing Jiang Zemin), his official achievements have stood out. He has extensive experience in economic management and has administrative credentials at the central and the local level. He also has special qualifications and experience as a high-level electrical engineer, and he was a professor and president of Qinghua University's Economic Management Academy in Beijing.

*On the CPC political scene, he is characterized most by the fact that in Mao Zedong's 1957 "airing views" open conspiracy, he attended a meeting and spoke three minutes of "truth." Before long he was listed as a "rightist." Later, because he was a very good worker, he was "lucky" not to be banished to the Great Northern Wilderness for reform through labor. He stayed at the*

State Planning Commission "working while he awaited charges" right up to 1979 when he was finally quietly rehabilitated.

When Hu Yaobang was general secretary (1980-1986), a group of 1957 "rightists" were major officials. Among them were Zhu Houze, whom Hu had promoted from Guizhou to be the Chinese Communists' minister of propaganda, as well as Wang Yuanhua, "mistakenly designated" a member of the "Hu Feng counterrevolutionary clique," who was appointed head of Shanghai municipal committee's propaganda department, and "rightist" author Wang Meng, who was appointed minister of culture. What about Zhu Rongji? In 1983 he was promoted to vice minister of the State Economic Commission.

Of those "rightists" promoted, Zhu Rongji climbed the highest. In the Chinese Communist high officialdom, members of the Political Bureau and the Secretariat;

premiers, vice premiers, and state councillors; and presidents and vice presidents of the National People's Congress are called "party and state leaders" and are treated as first- to third-grade administrators.

*Another "peculiarity" of Zhu Rongji on the CPC political scene is that he is the only one of the five vice premiers who is an alternate member of the Central Committee—generally vice premiers are members of the Central Committee or the Political Bureau. After next year's 14th National Party Congress and the First Plenary Session of the 14th CPC Central Committee, if he is still vice premier, he could at least get a position on the Central Committee, and he has a pretty good possibility of becoming a member of the Political Bureau with Zou Jiahua.*

#### **Member of the Radical Faction of Qinghua University's Student Movement in Beijing**

Zhu Rongji grew up in a poor family. After finishing middle school in Changsha, in 1947 he passed the entrance exam for Beijing's Qinghua University's electrical engineering department and relied on a Republican government scholarship for tuition and living expenses.

While at Qinghua he was inclined toward leftist thinking and joined the underground Chinese Communist Party planned by the "anti-hunger, anti-civil war" student movement. He and Beijing University's Hu Qili were members of the activist faction of the student movement under the direction of underground party cadre Wang Hanbin (now CPC Central Committee member and vice president of the National People's Congress). In Shanghai Jiaotong University student Jiang Zemin was a student movement activist (with the behind the scenes direction of Wu Xueqian and Qiao Shi).

Because he actively participated in the student movement's cooperation with the Chinese Communists in overthrowing the Kuomintang authorities, in October 1949 Zhu Rongji was admitted as a party member. After he graduated in 1951, he was given "preferential treatment" and assigned to the planning section of the Northeastern government's industrial department. Before long he was promoted to vice director of this section's production planning office. At that time, he was rather highly regarded by the deputy department head, Lu Dong. This had a great deal to do with his being made an official in the economic commission in the 1980's.

#### **Planning Commission Deputy Department Head and Petroleum Ministry Engineer**

After the administrative regions were abolished, in 1955 Zhu Rongji was transferred to the State Planning Commission headed by Li Fuchun, to be deputy chief of the fuel power bureau. In 1957 he attended a planning commission conference for "airing views" and criticized some mistakes in planning work. As a result, in 1958 he was "provisionally designated a rightist." But he received "preferential treatment" and was downgraded

from a grade 14 or 15 assistant department head to a grade 17 or 18 researcher and kept on. Later he did planning in the planning commission's General Weights Bureau and Mechanical Bureau.

After the Cultural Revolution began in 1966, the planning commission was paralyzed and Zhu Rongji was sent to labor for his "crime of being labeled a rightist." He spent five difficult years in the countryside. After he got out of a period in the "cowshed," arrangements were made for him to work as assistant chief engineer doing technical work in the Electrical Communication Company affiliated with the pipeline bureau of the State Ministry of Petroleum Industry headed by Yu Qiuli.

#### **From the Social Science Academy Industrial Research Institute to Qinghua University**

In 1978 Zhu Rongji pursued high level graduate studies in the industrial economics department of Beijing's Chinese People's University.

In 1979, after the Chinese Academy of Social Sciences was formally established, he entered the Industrial Economics Research Institute headed by Ma Hong [7456 3163] in charge of the industrial planning research office. According to Chinese Communist "official standards," the president of an institute in the Academy of Social Sciences is equivalent to a State Council department head (grades eight to 10) and the head of a research office is equivalent to the head of a department office (grades 12 to 13) the lowest level of senior cadres.

Ma Hong (born 1920), who was a member and secretary general of the State Planning Commission, was considered Zhu Rongji's department head and was pretty good to Zhu. So, when he became president of the Industrial Research Institute of the Academy of Social Sciences (later promoted to vice president and president of the academy), he brought Zhu along as head of the research office. Ma Hong was successful as a young man. When he was about 30 years old, with a hand from Gao Gang [7559 1511], he became deputy general secretary of a bureau in the northeast. After the Gao Rao [7559 7437] Incident, he fell on ill fortune and in 1956 was dismissed from his post and banished. Similar political experiences made them bosom brothers. Later, when Zhu was transferred to be president and a researcher at Qinghua University's Economic Management Institute, Ma Hong put forth an effort from the sidelines.

#### **From Deputy Head of the Economic Commission to Mayor of Shanghai**

In 1982 when Lu Dong was transferred from Minister of the Third Ministry of Machine-Building Industry to be first vice minister of the Economic Commission (the minister was Zhang Jingfu), he thought about his subordinate Zhu Rongji from the Northeast Industrial Department and devised a way to have Zhu transferred to the Economic Commission as a department head. Later, Zhu was promoted to be assistant chief and chief of the



technical transformation bureau in charge of renovation of enterprise technical equipment.

In 1983, Zhu Rongji was promoted to be vice minister and deputy party secretary of the Economic Commission. Lu Dong then became minister in 1984.

In October 1987, when the Chinese Communists held the First Plenary Session of the 13th Central Committee, former Shanghai party secretary Rui Xingwen was voted into the Secretariat and put in charge of propaganda. Former Shanghai deputy party chief and mayor Jiang Zemin became Shanghai party secretary and Zhu Rongji filled Jiang Zemin's vacancy. After 4 June 1989, Jiang Zemin was promoted to be general secretary of the Chinese Communist Political Bureau Standing Committee, and Zhu Rongji was promoted to be party secretary and mayor of Shanghai. He was the only person with provincial level responsibilities to be made the "number one man" in both the party and the government.

#### **Improves Shanghai Municipal Government, Advocates Developing New Situation**

Zhu Rongji had an industrial background and participated for a long time in economic administration and management. When he was transferred to Shanghai to take charge, he especially emphasized renovation of enterprise technical equipment and the municipal government. He was a steadfast, bold, and resolute worker and did not like a superficial and dilatory work style. During these four years, he frequently went down to the grass-roots to the factories and the streets to get acquainted with the actual situation. Especially contributing to improvement of transportation and housing, he promoted city development.

He has been very enthusiastic about structural reform of the economy, advocating expanding and adapting Marxism, not wanting to be fettered by certain theses of the "classics," but wanting to take the development of productive forces as a premise and boldly explore the orientation of economic reform and open the economy to the outside. He took charge of drafting the Pudong development plan and spared no effort in advocating boldly introducing foreign investment, and using Pudong land concessions to raise funds and fully develop the new district of Pudong, spur the transformation of the urban function of the old district of Puxi, and build Shanghai into an international commercial and financial center.

He advocates accelerating the intensification of economic reform, using the market to guide the transformation of enterprises, and truly letting enterprises become independent economic entities with economic benefits and increased investment in technological renovation to improve the quality of enterprises. The revisions to the Shanghai housing reform plan that he directed have recently drawn the interest of several provinces.

Because a three-minute speech led to his bitter experience of being named a "rightist" for 21 years, Zhu Rongji does not subscribe to rushing to a major rectification of people's "political style." Before and after "4 June," he used worker rectification teams to urge the students to back off and avoid armed suppression and he was extremely restrained in settling accounts with literary people after "anti-liberalism." So, Shanghai people think that he is comparatively enlightened.

#### **Ideological Issues on Role of Science, Technology**

*91CM0495A Shanghai JIEFANG RIBAO in Chinese  
29 May 91 p 3*

[Article by Gong Yuzhi (7895 5148 0037), deputy head of the CPC Central Committee's Propaganda Department: "A Historical Case and Several Theoretical Reflections"]

[Text] An intense controversy raged in China from the autumn of 1975 until the summer of 1976 about the Marxist thesis that "science and technology are production forces." This has now become a historical case about which young comrades may not be very familiar, and about which many comrades who lived through it may also not know the details. For this reason, I will provide a brief explanation here.

In 1975, when Comrade Deng Xiaoping was in charge of the daily work of the CPC Central Committee, he completely reorganized all tasks. In reorganizing scientific work, he prepared a document that he originally titled, "Several Problems in Scientific and Technical Work (Report Outline)," only to re-title it later, "China Academy of Sciences Work Report Outline." The first draft of this outline, which was prepared as a report to the Central Committee, carried the words, "Science and technology are also production forces." The revised draft carried in boldface the words, "Science and technology are production forces," which were ascribed to Chairman Mao Zedong. The basis for this ascription at that time was, first, that Mao Zedong had many times said words to this effect; and second, that Mao Zedong had said these words in December 1963 after listening to a report on the 10 year plan (1963-1972) for scientific and technical work delivered by Comrade Nie Rongzhen et al of the CPC Central Committee Science Team. Not only was this widely circulated hearsay, but it was even included in "Chairman Mao Discusses the Scientific and Technical Revolution," an article printed for internal distribution. Not only was it included in unofficial publications, but also in official documents. "Minutes of the National Conference on Scientific and Technical Work" also printed these words in boldface. At that time, documents and articles used boldface only when quoting the words of Marx, Engels, Lenin, and Mao Zedong.

When Deng Xiaoping gave the report to Mao Zedong, a question arose. Mao Zedong said that he did not remember having said these words. When Deng



explained that Marx had said them, Mao still said that he did not remember that he himself had spoken them. Thus, there were two alternatives. One was further revision of the report outline in accordance with several of Mao's ideas, including deletion of the boldface words, "Science and technology are production forces." The second was to find the original notes prepared by those in attendance in 1963 when Mao listened to the report. The original notes of Han Guang [7281 0342], Yu Guangyuan, and Fang Changjiang [5400 7022 3068] were found. Indeed their notes contained no direct statement of judgment such as "science and technology are production forces." No trace could be found of notes containing this widely circulated judgment or where it had come from. According to the extant original notes, what Mao Zedong said on 16 December was as follows:

The science and technology battle must be fought, and it must be fought well. Our past battles were to build the superstructure—to build the people's government, and the people's armed forces. What was the purpose of building this superstructure? It was to carry on production. The goal in building the superstructure and organizing production relationships is the emancipation of productivity. Now that production relationships have been changed, productivity has to be raised. Without the use of science and technology, productivity cannot be raised.

This passage is very important; its message is very clear; and it is stated very forcefully.

Before the "report outline" was completely revised and published, the "wind to criticize Deng and to counterattack reversal of the rightist tendencies verdict" began to blow. The "report outline" was criticized as a "big, poisonous revisionist weed." Those who leveled this criticism maintained that the statement that "science and technology are production forces," which served as the theoretical basis of the "report outline" was, one, a "rumor," and two, a "mistranslation." The remark about it being a "rumor" stemmed from the story outlined above. It must be noted that Mao Zedong said only that he did not remember having said this; he did not say that he could not have said it, much less did he say that he disagreed with this Marxist thesis. The remark about it being a "mistranslation" was deliberate harassment. It was an attempt to represent a Marxist thesis as not coming from Marx, thereby representing the statement that "science and technology are production forces" as a so-called revisionist "theory of production forces," and "scientific and technical determinism." Deng Xiaoping was criticized for "emphasizing that science is the main element in productivity with the goal of rejecting the guiding principle of class struggle." It was "extending" a hand to modern revisionism, and "taking over" the entire worn-out theme of 'science serving as a kind of direct production force'."

Only by understanding this historical case is it possible to understand why at that time Deng Xiaoping singled out the damage to scientific and technical work done by

the gang of four during the Cultural Revolution (including damage to actual work in the scientific and technical fields, and damage to the Marxists theoretical standpoint on scientific and technical work), and emphasized that the statement "science and technology are production forces" expresses the courage of Marxist theory.

After the Great Cultural Revolution came to an end, Comrade Deng Xiaoping reiterated in a speech to the National Science Conference in 1978, the historical Marxist view that "science and technology are production forces," which brought to an end the aforestated historical case and ushered in a new historical period that emphasized the role of the party in this fundamental socialist task of devoting close attention to science and technology in the development of productivity. Ten years later in 1988, Deng Xiaoping further said that "Marx's statement that science and technology are production forces is eminently correct. Today, it seems that such a statement does not go far enough; they seem to be the primary production force." Conscientious understanding of this new Marxist thesis (or, in other words, this new expression of a Marxist historical thesis), and genuinely applying it to practical work will advance the party's role in paying close attention to science and technology in the development of productivity to a new stage

Theoreticians have done much work and have held many discussions in studying and expounding this thesis. They are all striving to study it in greater depth and breadth, and to link theory more closely with practice. Discussions have also raised some questions. The discussion of such academic and theoretical disagreements is beneficial. Below, I will discuss in a simple way some of my own thoughts on several theoretical issues.

One issue is whether affirmation of the statement that "science and technology are production forces" might lead to lack of serious attention to the study of basic theories inasmuch as the study of many basic theories cannot be associated with productivity. I believe that the significance of this thesis of Marx and Deng Xiaoping lies in its emphasis on the important position and role of science in productivity, rather than in the sense of categorizing all science as a production force, and rather than in the sense of looking down on the study of those basic theories that cannot be applied to productivity. When Marx said that people and the revolutionary class themselves are production forces, he meant neither that the essence of people and the revolutionary class and all of their activities are production forces, or that activities other than the production activities of people and the revolutionary class (such as their participation in literature and art, or in politics and philosophy) should not be given serious attention. Did not Marx feel "heartfelt joy" about the actual application or even the as yet unforeseeable use of "every new discovery in any field of theoretical science"? However, as Marxist revolutionaries and theoreticians, it is only natural for both Marx and Deng Xiaoping to pay a lot of attention to launching

a revolution in productivity, and to a science and technology that has "a revolutionary effect on the general development of history," and to pay a high degree of attention to the theory of historical materialism and practice in the development of socialism. As for the correlation between the study of basic theories and productivity, I believe this is not purely an issue of inclusion or exclusion. The issue has to be looked at in terms of the totality and development. Science is an organic totality. In the task of studying one basic theory after another, one certainly cannot say that each and every theory will be translated into productivity. However, the elevation of the study of basic theories to the level of total science, so that all the segments that make up total science and technology will function in the development of productivity, is an indirect and potential method for converting basic theories into productivity. They are a way to explore the future development of productivity to provide a scientific reserve. To emphasize that "science and technology are production forces," absolutely does not mean being shortsighted, and neglecting the study of basic theories that cannot be translated immediately and directly into productivity. Moreover, careful consideration must be given to how best to integrate and coordinate all the integral parts of scientific research (basic theories, technical science, applied research, and technical development) in an effort to make science and technology function as a totality in the development of productivity.

Yet another issue is will "affirmation of science and technology as being production forces" lead to lack of serious attention to the value of science in mankind's spiritual life? I believe that high regard for the value of the scientific spirit, a scientific attitude, and the scientific method need not be antithetical to a high regard for the role of science in the development of productivity. When Marx and Engels analyzed the important role of science in the development of productivity in their work, they found that when "natural science enters the production process," science becomes "an element in the production process," scientific principles being generally applied to become the "motive force" and the "principle" for progress in production. Furthermore, "everywhere, they become the principles that play a decisive role." They reached so many conclusions, yet they did not fail to realize that science has other functions as well. Engels said it most clearly: The result of the marriage of science and philosophy was materialism, the age of enlightenment, and the German political revolution. The marriage of science and practice produced the British social revolution, and the industrial revolution. This was a profound capsule of the revolutionary role of science on the history of modern western Europe. The espousal of democracy and science during China's May 4th period was even more an emphasis on the ideological and the spiritual. In his Yan'an speech on the new democratic civilization, Mao Zedong also paid close attention to the use of science in formulating the nature and characteristics of a new civilization. In its resolution on the guiding policy for the development of socialist spiritual

civilization, the CPC Central Committee placed in an important position the advancement of the scientific spirit and the improvement of the scientific and cultural quality of all of the people. Therefore, in terms of a guiding ideology, the emphasis that "science and technology is a production force," does not mean that one should neglect science's spiritual value. Naturally, emphasis on the spiritual value of science cannot be overlooked; it is necessary and beneficial. One can advance this idea without casting doubt on the theory that "science and technology are production forces."

The third issue is, will the contention that "science and technology are the number one production force" lower the position of labor in productivity? It must be noted that when emphasizing the role of science and technology, Marxists have always maintained that science and technology are created and controlled by the workers. No question arises here of who is first and who is second, the workers or science and technology. The workers control the functioning of the means of labor, on the objects of labor. The development of science and technology increases the ability of workers to work and be creative. It improves the usefulness of the means and it develops new fields and a new depth for the objects of labor. The formula for the three-elements theory of productivity is as follows: Productivity = workers + the means of labor + the objects of labor. Science and technology is not added to this formula as a fourth element, but serves instead as a multiplier of the other three elements. The formula is Productivity = science and technology x (workers + the means of labor + the object of labor). Since science and technology are developing faster and faster, this multiplier is increasing faster and faster. In this sense, it has become first. One other point requires clarification, namely, that in the three-elements theory, the three elements are not regarded as having equal standing. The above formula is a simplification. In the work process, the worker controls the means of labor and the objects of labor (in an exploitive system, the means of labor and the objects of labor are held by the exploiting class, but the labor process is still controlled by the workers). Therefore, strictly speaking, in the development of the production process, it is the workers (including the scientific and technical personnel who are forming an increasingly large proportion of workers) who control and create science and technology, which is used for the steady development of the means of labor and objects of labor, and the means of labor are applied to the objects of labor in the labor process. Workers hold the dominant position. In mastering and creating science and technology, the workers become the most active and the primary dynamic element in the development of production.

The fourth issue is: In the contention that "science and technology are production forces," is the work of scientific research personnel considered productive labor or non-productive labor? Are scientific research expenses, production expenses or non-production expenses? We believe this to be a very large question of major theoretical and practical significance. Marx said that in a

capitalist society, those who do mental labor and those who do physical labor are paid differently; however, "a material product is the product of the joint labor of all these people." Each of these people is a "production worker in a certain sense." Today, under the socialist production system, this is naturally even more the case. Engels condemned the superficial capitalist economists of his time for not understanding and respecting the role

of this spiritual element in the development of production, and for being unwilling to trouble themselves with science when figuring production costs. He also noted specifically that under a rational system, spiritual factors should naturally be listed among the production factors and should have their own place among items of political and economic production expenses. I feel that now is the time for our diligent consideration of this point of view.

## NATIONAL AFFAIRS, POLICY

### Enhancing Large, Medium-Sized Firms

HK1506083091 Beijing JINGJI GUANLI in Chinese  
No 4, 5 Apr 91 pp 27-30

[Article by Yang Peixin (2799 1014 2450), edited by Song Jiuru (1345 0046 1172): "How To Invigorate Large, Medium-Sized Enterprises"]

[Text] The communique of the Seventh Plenary Session of the 13th CPC Central Committee pointed out: In 1991, "we must concentrate our efforts on doing well in economic work, on solving prominent contradictions and key issues, particularly issues about vitalizing large and medium-sized state-run enterprises, and maintaining steady agricultural development." In China, the number of large and medium-sized enterprises is over 10,000. Their value accounts for 70 percent of the fixed assets in state-run enterprises; and their realized profits accounts for over 60 percent of the total amount. They are thus the backbone of the national economy. Vitalizing large and medium-sized enterprises and putting an end to the sluggish market have now become the prime objectives of our economic work.

#### I. Why Have Enterprises Run Into a Dilemma?

At present, the large and medium-sized state-run enterprises are encountering serious difficulties. Liaoning Province proposed that the present problems were not how to vitalize enterprises, but how to save enterprises. By the end of November last year, there were 13,171 loss-incurring state-run enterprises, or 35 percent of the total number. Losses totaled 24.833 billion yuan, 1.04 times more than the same period in the previous year. In Liaoning, the proportion of loss-incurring enterprises was as many as 52 percent. Together with enterprises that might likely incur losses, the proportion reached 70 percent. In Sichuan, such a proportion was over 50 percent. According to a survey among 189 state-run enterprises in Chengdu, it was shown that 56 incurred losses and that 105 did not reflect their losses on the books. Thus, the number of loss-incurring enterprises was 161, or 85.2 percent of the total. Between January and November 1990, the output value of budgetary industrial enterprises across China increased by only 1 percent. Sales revenue increased by 3 percent, and realized profits totaled 115.277 billion yuan, a decrease of 18.79 percent. Of the figure, profits dropped by 23.496 billion yuan or 56.7 percent. Taxes increased by 91.781 billion yuan or 4.7 percent. Taxes and profit delivery was 99.632 billion yuan, a decrease of 4.08 percent. This included 4.851 million yuan of profit delivery, a decrease of 62.9 percent. The amount of profits retained by enterprises was only 14.710 billion yuan, a decline of 38.9 percent. It has currently become a prominent issue in China's national economy that the economic results of enterprises have declined and financial deficits have

grown because of the runaway macroeconomic readjustment, sluggish market, heavy tax burdens, and financial policies.

Today, an absolute majority of enterprises has started the second round of contracting. As a result of the deteriorating external business environment, these enterprises are now in a dilemma that their status will become even worse if they stop contracting, though they are incapable of undertaking such contracts.

That the enterprises encounter financial difficulties is not because of the contract system. Rather, it is mainly because of the heavy tax burdens, financial policies, and the runaway macroeconomic readjustment.

After its nationwide popularization in May 1987, the contract system promptly improved the national economy, putting an end to the situation where the realized profits and financial revenue of enterprises had been declining for 22 months since 1983, when the substitution of profit delivery with taxation was enforced. In that year, taxes and profit delivery nationwide increased by 11.800 billion yuan, or 9.9 percent. This included some 6 billion yuan of newly increased financial revenue derived from the adoption of the contract system. In 1988, the amount of profits realized by budgetary industrial enterprises increased by 21.4 percent. The amount of taxes and profit delivery increased by 15.8 percent, a record level.

Nevertheless, some comrades failed to acknowledge their mistakes in the substitution of profit delivery with taxation. They continuously increased the tax burdens on enterprises and expanded the scope of taxation at the expense of profit delivery, so the economic results of contracting enterprises continuously dropped. According to a survey by China's association for industrial economy, there were only two types of taxes (industrial and commercial tax, and income tax) in 1987. Following the second stage of the substitution of profit delivery with taxation, there were seven types of taxes (product tax, value-added tax, business tax, resources tax, salt tax, income tax, and readjustment tax). In 1989 alone, the number of tax categories was increased to 20; and there were new types of charges, such as charges for transportation and energy funds, charges for budgetary readjustment funds, educational surcharges, charges for electricity development funds, and charges for the utilization of the state's working capital. Together with charges for funds stipulated by the local authorities, there were as many as 60 categories of charges. It was pointed out in the survey: "Following the adoption of the system of contracted responsibilities, enterprises have a chance to recuperate, and the development of industries and of the national economy was promoted. However, many policies and measures adopted in the past two years have taken back such advantages previously given to enterprises."

Recently, the financial department increased taxes on enterprises in the following aspects: 1) Taxes were levied

with respect to cost, including the land use tax, taxes on the utilization of vehicles and vessels, property tax, stamp duty, resources tax, and special taxes on oil combustion. 2) Circulation taxes were levied on sales revenue. 3) Taxes were levied on profits derived from contracting. 4) Energy and transportation funds, and budgetary readjustment funds were allocated from the enterprises' profits. In addition, these enterprises needed to pay various kinds of subsidies; to subscribe to bonds; to pay construction taxes, and taxes on bonuses; and so forth. The above four areas raised the tax amount by 39 percent. As a result of adopting the above policies, the proportion of circulation tax to realized profits changed from 40.1 percent in 1984 into 64.2 percent in 1989. Between January and October 1990, the proportion rose to 79.3 percent. At present, some enterprises even find it difficult to use their retained profits to pay workers' medical expenses. Many enterprises have lost their capability of self-accumulation, self-development, and self-transformation.

The situation of inflation that became increasingly serious in 1988, and the 1989 austerity policy, took place alternately. When there was inflation, there was a buying spree on the market so that prices of raw materials and energy soared. When the austerity policy was adopted, the market became sluggish and industrial output declined, so enterprises encountered difficulties. In 1988, there was a price rise in all of the 200 kinds of raw materials in Tianjin City. The average rate was 32 percent, thereby becoming a new factor that reduced the profit amount by 2.557 billion yuan. In that same year, enterprises were allowed to increase the price of their products by 1.6 billion yuan, and to enjoy 310 million yuan of tax reduction, thereby offsetting the loss by three-quarters. Beginning in 1989, however, enterprises were prohibited from raising the price of finished products, while tolerating the existence of "dual-track pricing system" regarding raw materials. Therefore, the price of raw materials, electricity, and transportation continued to rise, and the burdens on enterprises became heavier. In 1990, the operation cost of enterprises grew sharply following the readjustment of the prices of coal, oil, and electricity, as well as railway freight charges. In 1990, the cost to Capital Iron and Steel for transporting coal supplied under the state plans grew from 52 yuan to 119 yuan per ton, or 129 percent. Its electricity expenses increased from 0.08 yuan to 0.185 yuan per kilowatt hour, or 130 percent. In the case of Anshan Iron and Steel, its retained profit over the past two years was zero because of an increase in taxes and profit delivery, and the price rise in raw materials, which reduced its profit amount by 2 billion yuan. Accumulated overdue taxes reached 1.68 billion yuan. It was stipulated in those contracts and documents of Anshan Iron and Steel approved by the three committees and the two ministries that the contracted base might be readjusted when new taxes were levied and the tax rates were increased. Today, however, nobody assumes such responsibility. The adoption of "double guarantees" still cannot solve the problems. The amount of planned electricity supply

accounted for 45.8 percent of the mill's total consumption of electricity; and that of coal accounted for 80 percent of its total consumption. But the policy of "double guarantees" failed to realize such supplies.

In the early days of improvement and rectification, administrative means were used to check the scale of investment. Though Capital Iron and Steel might annually invest about 1 billion yuan in technological transformation, it was only granted an approval to invest 100 to 140 million yuan. It was originally planned that Capital Iron and Steel make its decisions on any technological transformation project worth less than 3 million yuan. Now, the maximum level has been reduced to 50,000 yuan. This is a practice of collecting profits from enterprises and recentralizing their authority. Such provisions go against the spirit of the state's industrial policies, which encourage technological transformation projects but discourage construction projects.

The state-run economy was shrinking since almost all fiscal revenue of the state came from state-run enterprises, and the right of autonomous operations by these enterprises was recentralized under the name of planned economy. At present, a situation has developed where the proportion of output value from the economy owned by the whole people to the total value of multiple economies is continuously falling. It was the industrial output of foreign enterprises, as well as town and township enterprises, that bounced back in 1990. The industrial output of budgetary enterprises bounced back by only about 1 percent. People in the enterprise circle said that enterprises owned by the whole people were inferior to those owned by collectives, those owned by collectives were inferior to town and township enterprises, town and township enterprises were inferior to individually-run enterprises, individually-run enterprises were inferior to foreign-invested enterprises, and equity joint ventures were inferior to wholly foreign-owned ones. This is because China's fiscal and taxation policies favor town and township enterprises and foreign-invested enterprises. In 1989, the output-profit ratio of enterprises owned by the whole people was 9.58 percent. Their depreciation ratio was 4.28 percent, and their output-taxes and profit delivery ratio was 18.03 percent. For town-run enterprises, the output-profit ratio was 4.99 percent. Their depreciation ratio was 6.77 percent, and their output-taxes and profit delivery ratio was 6.22 percent. In the case of foreign-invested enterprises, the output-profit ratio was 8.12 percent. Their depreciation ratio was 6.39 percent, and their output-taxes and profit delivery ratio was 8.03 percent.

## II. Ways To Vitalize Large, Medium-Sized State Enterprises

To vitalize enterprises, we must first correct our guiding ideology regarding macroeconomic management. It must bear in mind that an economy will never become prosperous, and we cannot put an end to the poor financial situation, if enterprises cannot be developed. We must first protect enterprises, and then the financial

situation. The financial situation must be subordinated to the economy. Under no circumstances must we regard the work of increasing fiscal revenue, or that of collecting more funds from enterprises, as the prime task of our economic work.

To vitalize enterprises we must also mobilize their initiative. This thus requires us to uphold, perfect, and develop the contract system. At the same time, we must take the perfection of the contract system as the key to intensifying reforms, and carry out corresponding reforms in fiscal, financial, planning, investment, foreign trade, and other matters.

A. We should uphold, perfect, and develop the contract system.

Vitalizing enterprises first requires that we uphold, perfect, and develop the contract system. This thus mobilizes the initiative of enterprises; makes them form a powerful and dynamic mechanism; and lets them really carry out autonomous operations and become capable of self-accumulation, self-development, and self-constraint.

1. We must clarify that the contract system is the objective and direction of our reform of enterprise structure. I hold that we should announce that the contract policy will remain unchanged for 30 years. China reaped a bumper harvest in agriculture in 1984 and reaped another bumper harvest in 1990 after fluctuation for several years. One reason for this was that we announced to the peasants that the system of contracted responsibility on a household basis would remain unchanged for 50 years, so peasants could put their heart at ease, and could go all out to develop agricultural production. However, the development of the contract system for enterprises was not successful.

I hold that the contract system for enterprises is a perfection of socialist ownership by the whole people. At the preliminary stage of socialism, the contract system is the best mode for socialist enterprises. Our traditional socialist mode over the past decades was the ownership by the whole people. Under this mode, various government departments were in charge of their operations; planning and competent departments directly assigned production, sales, and investment targets to them; goods and materials departments were in charge of the supply of raw materials; commercial, goods and materials, and foreign trade departments centralized the purchase and sale of products; financial departments assigned tasks of profit delivery; and labor departments stipulated staff number and wage standards. With more than a dozen ministries in Beijing controlling at a distance tens of thousands of enterprises across China, such enterprises became "workshops." They lost their right of autonomous operations. Workers were prohibited from taking an interest in, or understanding, the business situation of their factories. As factory directors could not assume responsibilities, and workers had no right to take an interest in their factory's affairs, the ownership by the whole people became a system of responsibility by

nobody; the technology became backward; and the economic results were very poor. Under the contract system, a part of the whole people—workers of the enterprise in question—contract such enterprises on behalf of the whole people. As they represent the whole people, they actually occupy, utilize, dispose of the properties of their enterprise. In addition, they have the right of autonomous operation, and are active and voluntary laborers. By acting in this way, we combine the status of owner, operator, and laborer into one. This is a superiority of the socialist enterprises owned by the whole people. The contract system can correctly handle the relations among the state, enterprises, and workers. Through the "fixed-base figure" and an annual increase, the state's revenue is guaranteed. Through the practice of "retaining all profits that exceed the contracted level," the interests of enterprises and workers are safeguarded. Through the determination of ratios for production development funds, as well as welfare and bonus funds, we can guarantee a reasonable ratios for expanded reproduction, and for improving workers' living standards. Contradictions among the state, enterprises, and workers will continue to exist throughout the preliminary stage of socialism. The contract system, which helps coordinate the relationship among them, is not a stopgap measure. Rather, it is the best choice of socialist enterprise system. Therefore, the duration of each round of contract term should be extended as much as possible, and should be at least five years, so as to encourage enterprises to establish their thinking about long-term development.

2. We must standardize the contract system by studying and popularizing the experience of the Capital Iron and Steel Mill in implementing the contract system.

The characteristics of Capital Iron and Steel in implementing the contract system are:

a. The adoption of increasing contracted base. In this practice, "a base figure is fixed so as to guarantee the profit delivery; profits exceeding the contracted level are retained; and one is responsible for making up for losses." With a fixed base figure that was annually increased, an enterprise had to work hard to fulfill this figure. Otherwise, it had to make up for the losses. This thus brought great pressure on enterprises. While retaining all profits exceeding the contracted level, an enterprise might, upon delivery of its guaranteed profits, utilize such profits for technological transformation, and for improving the environment and working conditions. This thus formed a powerful driving force because it improved the labor productivity, and encouraged moves to earn more profits. A valuable experience of Capital Iron and Steel in implementing the contract system is that it really managed to readjust in one area and took a relaxed attitude toward the other. The "substitution of profit delivery with taxes" was started after readjusting the tax categories and rates. Compared to the practice of sharing profits exceeding the contracted level, this yields better results in mobilizing the initiative of enterprises.

b. Contracting by the whole staff. Important matters of an enterprise were presented to the workers' representative congress for discussion and approval. The workers' representative congress has the right to make decisions. Matters regarding contracting, investment, operation, and distribution were subject to the decisions of the congress. Party committees were the political leaders, while workers were the master of their own affairs, and the factory director was fully authorized to give instructions. To practice democratic supervision, major matters were open to the workers. As duties, interests, and profits were assigned down to every level, there formed a well-organized enterprise management system in respect of contracting, guarantee, and assessment. The term "contracting" here means the clarification of duties and obligations of units and individuals. The term "guarantee" here means cooperation arranged among units, and posts according to the rules. The term "assessment" here means a strict examination of the situation and results of the work of contracting and guarantee, and on the basis of which to distribute according to work. From the general office down to workshops, work groups, and individuals, this thus forms a contracting-guarantee-assessment system in the shape of a pyramid.

c. It was stipulated in Capital Iron and Steel's contracts that the ratio of retained profits was maintained at 6:2:2, that is, 60 percent of the profits should be allocated to the production development funds; 20 percent to the welfare funds; and 20 percent to the bonus funds. It was further stipulated that the ratio of growth in profits to the growth in total wages should be maintained at 1:0.8 level. This thus correctly solves problems concerning the relations among the state, enterprises, and workers; the relations between accumulation and distribution; and the relations between distribution and production. It also combines together the interests of the state, enterprises, and workers. This is a self-stimulation mechanism, as well as a self-constraint mechanism, which is effective in checking short-term acts, and expansion in consumption funds.

3. We must further develop the contract system, and grant to large and medium-sized enterprises as soon as possible the right of autonomy in investment and foreign trade affairs.

a. To grant to large and medium-sized enterprises the right of autonomy in investment has become an urgent task in the current development of enterprises. In the expanded reproduction, we must take enterprises as the subject. The principal investor of the expanded reproduction, which is currently the state, should be replaced by enterprises. This is the key to improve the economic results of investment. Over the past 11 years, Capital Iron and Steel accomplished 103 items of key transformation projects. Its average term of return of investment was less than 3 years. Its profits increased by 7.913 billion yuan. The input-output ratio was 1:2.62. During the same period, enterprises owned by the whole people and adopting independent accounting totally invested a total of 1.1362 trillion yuan. Their profits were increased

by 524.1 billion yuan. The input-output ratio was 1:0.46. By comparison, it is shown that the economic results of investment by Capital Iron and Steel was more than 4 times higher. Therefore, it is suggested that we should grant to every large enterprise (such as the top 10 largest iron and steel mills in China) the right of investment autonomy. Projects confirmed by enterprises may be submitted to planning organs for the record. The planning organs may give opinions on the projects. But the enterprises should be allowed to invest at their own risks and make decisions on investment.

b. To grant the large and medium-sized enterprises the right of autonomy in foreign trade affairs. Under the blockade by imperialism, the socialist countries were forced to impose foreign trade barriers. Though the Third Plenary Session of the 11th CPC Central Committee decided to implement the policy of opening up, the development in reforms of the foreign trade system fell far behind. The situation of monopoly in foreign trade has severed contacts between enterprises and the international market. The unified imports and exports have formed a closed system. It is very difficult to collect all market information, as well as sales opportunities on the market, by simply relying on a score of people in the foreign trade departments. Therefore, we will miss many opportunities to expand our international sales. The key to reform the foreign trade system is to allow enterprises to establish personal contacts with the international market, to find their sale outlets, to find technology, and to face difficulties on the international market to expedite the development of enterprises. Direct exports by enterprises does not necessarily mean that there will be price hiking on the domestic market, and that there will be price wars on the international market. When enterprises operate independently, and assume sole responsibility for their losses and profits in exports, they are confined not to undertake any arbitrary sales at a low export price. It is more effective to confine enterprises by granting them the right of autonomy in foreign trade affairs than granting the right to local administrative organs.

It is suggested that we should intensify reforms in the foreign trade system, and put an end to the current practice in which the right of autonomy in foreign trade will be granted to a particular enterprise when the export volume of such enterprise has reached a specific level. All large enterprises should be granted such right. This may not only increase our exports, but also allow enterprises to directly participate in international competition, and to speed up their technological progress. The Seventh Plenary Session of the 13th CPC Central Committee had already decided to grant large enterprises, as well as enterprise groups, the right of autonomy in foreign trade affairs. It is hoped that this policy will be promptly implemented to the letter, and will gradually be popularized to cover ordinary enterprises.

B. We should change the functions of the government, streamline the size of organization, separate government supervision from enterprise management; and at the

same time, carry out corresponding reforms in the financial system, so as to improve the external environment of enterprises.

1. As the state's administrative organs continuously expand, there are cases of overstaffed, and duplicated setup. Governments at various levels have given instructions to enterprises to organize various kinds of assessment, product contests, and fund-raising. They have also issued many documents and statements to the enterprises. In addition, they request the enterprises to setup corresponding departments to go through governmental procedures. This neither separates government supervision from enterprise management, nor eases the economic burden on enterprises. Therefore, we should change the functions of the government, streamline the size of organization, and really separate government supervision from enterprise management.

2. We must reform the financial system. We must manage to check the continuously expanding state organs through financial means. In the coming years, the focal point of our financial work should be switched from increasing the revenue to cutting down expenses. We should adopt policies that will allow enterprises to recuperate, and that will not increase the economic burden on them. For this reason, we must focus on cutting down the expenses because the growth rate of industrial production cannot be arbitrarily increased. In order to flexibly readjust the macroeconomy, it is impossible that we make no change in the tax categories and rates. However, we should accept the constraint of fixing one of the terms. Therefore, we may adopt flexible measures, namely, to allow enterprises to "substitute profit delivery with taxes," so that such payable additional taxes and charges will not exceed the base figure stipulated in contracts. We should also explicitly include this clause in the contracts.

3. We must reform the financial system, and make it help the large and medium-sized enterprises vitalize. At present, the level of savings interest rate must not be below the inflation rate. Otherwise, residents will withdraw their savings and start another buying spree on commodities. The interest rates on loans must be also higher than the savings interest rates. Otherwise, the banks will suffer losses. It is suggested that we should rationalize the relations among the three. In the price readjustment, we should slow down our pace, and ensure that the annual inflation rate will not exceed 5 percent. The savings interest rates should be slightly higher than the inflation rate, and should be maintained at around 6 percent. The interest rates on loans should be around 7 percent. As the relations among the three are very closely related, we must consider them all as a whole.

Simply put, we must mobilize the initiative of enterprises by upholding, perfecting, and developing the contract system. At the same time, we should perfect the external economic environment of enterprises. Only when we earnestly work hard in these two areas, can we really vitalize the large and medium-sized enterprises;

help them promptly put an end to the situation where the market is sluggish, and their economic results are poor; and help them develop in a continuous, stable, and coordinated manner.

#### Article Studies Dynamic Enterprise Contracting

HK1506062691 Beijing JINGJI GUANLI in Chinese  
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[Article by Li Guoqiang (2621 0948 1730): "Preliminary Study on Dynamic Enterprise Contracting"]

[Text] The biggest drawback of the static method of contracting adopted in the first round of enterprise contracting is that it is not suited to the dynamic developments of the economic environment, which makes it difficult to rationally fix the base figures for contracts. Efforts must be made to overcome and resolve this contradiction and to make the base figures more scientific and reasonable. This has become a problem urgently requiring a solution in the second round of contracting. This author believes the fundamental way out lies in replacing static contracting with dynamic contracting.

#### I. Drawbacks of Static Contracting

In drastically changing economic environments, it is impossible to fix scientific and reasonable base figures in static contracting. This is because static contracting has a whole range of drawbacks.

A. Static base figures of profit and market fluctuations are asymmetrical. At present, the organic combination of the planned economy and the commodity economy is still far from perfect. When the market under the planned commodity economy is not yet fully developed, it tends to fluctuate in an irregular way. Under such circumstances, we are likely to make mistakes in market predictions. Chaotic market order and the distortion of the laws of value often give enterprises opportunities which cannot be achieved by subjective efforts. Some enterprises can obtain super-profits without too much input in terms of manpower and material and financial resources. Some enterprises had considerably increased their manpower and material and financial resources, strengthened their management, tapped potential and tried to save energy, but still suffered massive cutbacks in profits because they could not cope with substantial increases in cost because of factors like soaring prices in raw and semifinished materials. The root of these abnormal phenomena lies in the fact that the base figures for profits are rigidly fixed. This means that when deviations occur between the actual and the predicted range of market fluctuations, the base figures cannot be readjusted accordingly.

B. Static base figures of profit and changes in economic policies are asymmetrical. We are now in the process of reforming our economic system, and many of the economic policies which are part and parcel of the product economy are no longer applicable. As the new system of



the planned commodity economy is still being developed, the corresponding economic policies are bound to be very much transitional and experimental in nature. During this period, changes in economic policies are absolute while stability is only relative.

C. Static base figures of profit and "dual-track pricing" are asymmetrical. The combination of the planned economy and the commodity economy is the starting point and final goal of our economic restructuring. For a long time to come, the state will adhere to the combination of mandatory and guidance plans with market regulation in its planned management of enterprises. When the base figures of profit are fixed, the "dual-track system" in the pricing of the means of production and goods will unavoidably create the following conflict: In order to capitalize on the difference between planned price and market price and reap more profits, contracting enterprises will be tempted to try to reduce planned allotments to other units under all sorts of pretexts. In order to meet the overall needs of economic construction, it is not uncommon for the state to impose new mandatory plans on top of the contracts signed. This puts enterprises in a dilemma: If they implement the plans, their profits will be encroached upon; if they do not implement the plans, the overall interests and their relationship with the higher authorities will be affected.

D. Static base figures of profit and the delayed realization of contract targets are asymmetrical. The base figures of profit for contracting enterprises are predicted on the basis of performance targets after taking reserve and development targets and other factors into consideration.

After the base figures of profit have been fixed, it remains to be seen whether the reserve and development targets can be attained as predicted. In the absence of regulatory measures, the chances of attaining the reserve and development targets merely by relying on the initiative of enterprises are very slim. It is for this reason that enterprises must ensure investment during the contract period in order to attain these targets. However, it is very difficult to retrieve all investment during the contract period, and sometimes it is even impossible to retrieve the investment. On the contrary, by accelerating the rate of depreciation of fixed assets, enterprises can gain more with fewer investment, or gain some with no investment, and this will bring about sham prosperity for the short term. If, at the end of their contracts, enterprises are to be punished or rewarded according to the base figures of profit determined before the commencement of the contracts regardless of whether or not they have attained the reserve and development targets, chances are that operators and producers who fell short of the targets would be rewarded while those who managed to attain the targets would be punished. This mistake of wrongly meting out rewards and punishments can only discourage enterprises from consciously fulfilling the contract targets.

## II. Scientific Quality of Dynamic Contracting

The concept of dynamic contracting was put forward on the basis of static contracting. Its scientific quality lies in the fact that it does not have the inevitable drawbacks of static contracting.

### A. The meaning of dynamic contracting.

Dynamic contracting is a scientific method of contracting which seeks to fully set off the stimulating function of contracting through the improvement of the target system, and which sets the base figures of profit in a two-step approach. The target system mainly refers to the performance target, reserve target, and development target. The performance target takes into account the amount of realized profits and the amount of taxes and profits turned over to the state in the past few years, as well as additional profits that can be realized during the contract period through technical transformation. It is also balanced against the profit rate on funds for the respective trade. The reserve target covers the development of new products, technical transformation, the proportion of equipment in good condition, the preservation of fixed assets against inflation, the appreciation of fixed assets, and so on. The development target covers labor productivity, product quality, comprehensive energy consumption, safety, personnel training, and so on. When determining the base figures of profit for contracting enterprises, a two-step approach of prediction and determination is followed. Step one: Before the commencement of the contract, the base figure of profit for the contract is predicted through cross comparisons in all directions. Step two: Toward the end of the contract, the base figure of profit for the contract is ultimately determined through modifications and readjustments of the predicted base figure according to the magnitude of changes in dynamic factors affecting the base figure of profit.

### B. The scientific quality of dynamic contracting.

1. It can maintain an equilibrium between the base figures of profit for contracting enterprises. In the first round of contracting, the base figure of profit for most enterprises was determined according to profits realized, or the amount of taxes and profits turned over, by the respective enterprises in the previous year, or according to a given growth rate. Because it was set through predictions made in the light of a longitudinal comparison within the enterprise itself, and failed to fully take into account the development potential and other factors, it led to irrational distribution between the state, the collective and the individuals. After the profit rate on funds for the respective trade is taken as the basis for predicting the base figures of profit for contracting enterprises, there is a common objective criterion for maintaining an equilibrium between the base figures of profit. Through cross comparisons between enterprises, it is hoped that the disequilibrium between the base figures of profit between different contracting enterprises can be properly resolved.

2. It can restore the stimulating function of the contracting system. Because of the lack of data for reference purposes, the base figures of profit were determined between the government department and enterprise concerned on a one-to-one basis in the first round of contracting. In its anxiety to implement the contract system, the party handing out the contract would often make concessions in negotiations, with the result that the base figures were forced down to the lowest point. There was very little risk involved in running enterprises. In some cases, risk was close to zero. Thus, the stimulating function of the contracting system was seriously undermined. The drawbacks associated with negotiations can be avoided by establishing a system of contract targets, relying on firsthand information data and carrying out comprehensive analysis. It is believed that greater risks associated with base figures of profits worked out through prediction will be able to restore the stimulating function of the contract system.

3. It can restrain the short-sighted behavior of enterprises. By taking the rate of appreciation of fixed assets, technical transformation and other reserve targets as the constituents of base figures for contracts, it will be possible to place enterprises under the hard constraint of contracts, increase investment in production and development, and attach importance to technological advancement, thereby effectively curbing the short-sighted behavior of enterprises.

4. It can give expression to the principle of fair competition between enterprises. As a result of adopting the two-step approach in determining the base figures of profit for contracts, it is possible, at the end of the contract, to modify and readjust the base figures in the light of the dynamic developments of the economic environment, thereby greatly reducing the randomness and increasing the rationality and precision in the determination of base figures. This means that there will not be huge contrasts between enterprises due to nonsubjective factors, and the aims of encouraging enterprises to increase investment, strengthen management, tap potential and reduce consumption, and of rewarding the advanced and punishing and backward, can be achieved. In this way, the contract system can reflect the principle of fair competition.

### III. Several Problems That Must Be Tackled in Carrying Out Dynamic Contracting

A. The establishment of a working system for calculating the magnitude of changes in the constituents of the base figures of profit for contracts.

1. Set up a set of market price index for the products of enterprises. Taking the market price for the period covered by the predicted base figures of profit for contracting enterprises as the standard, indexes for the fluctuation of market price should be calculated periodically by trades and by product in order to determine the reasonable critical limits for self-digestion and increase of revenue by enterprises. At the end of the contracting

year or the contracting period, the market price index of products should be taken as the basis for the modification and readjustment of the price component of the base figures of profit for the contracting enterprises concerned. In this way, the state can recover most of the superprofit resulting from price rise. At the same time, the base figures of profit for those contracting enterprises which are suffering profit cuts because of price rise in raw and supplementary materials can be appropriately reduced.

2. Keep track of the implementation of mandatory plans. Efforts must be made to implement a system of responsibility in the management of mandatory plans, clearly define the qualitative and quantitative time frames of mandatory plans, follow up and provide feedbacks on the implementation of plans in enterprises, and exercise supervision on enterprises to ensure the fulfillment of their plans in terms of qualitative, quantitative and time limit requirements. Regarding the unfulfilled parts of plans, we must calculate the difference in profit in the light of the product price index, and appropriately increase or reduce the base figures of profit for the contracting enterprise concerned. Enterprises that deliberately withhold the shipment of planned products must be given appropriate economic penalties.

3. Establish a system for the evaluation and auditing of contract targets. At the end of the contracting year or the contracting period, it is necessary to strictly evaluate and audit, in an comprehensive way, the reserve and development targets predicted before the commencement of the contract. The contracting enterprises should first be asked to make their own assessment. After this, personnel from auditing bodies should be assigned to individual contracting enterprises to check firsthand information and conduct on-the-spot assessment. On the basis of comprehensive and meticulous analysis, each case should be dealt with on its merits. Toward enterprises which failed to meet their reserve and development targets, we should appropriately increase their base figures of profit and suitably mete out economic penalties as a means of urging them to fulfill their targets. Toward enterprises which overfulfilled their targets, appropriate spiritual and material encouragement should be given.

4. Set up special files on changes in economic policies to keep a full record of the economic policies for different trades. Efforts must be made to keep track of and record changes in economic policies in different trades, have these changes converted to value forms, and calculate their impact on the profit and tax level of individual trades and enterprises. At the end of the contracting period, it is necessary to increase or reduce the base figures of profit for the contracting enterprises according to the calculated data.

B. Bring into play the role of law as a means of compulsory guarantee. Dynamic contracting has "flexibility" as its intrinsic feature, and is likely to run aground without the powerful guarantee of the law. Thus, efforts must be

made to clearly state the specific details and requirements of dynamic contracting in black and white. The party handing out the contract must take the initiative to honor the contract terms, and bring the methods of dynamic contracting into the standardized and institutionalized orbit of management so that their positive role can be fully brought into play.

C. Organize working organs for dynamic contracting and do a good job of predicting and readjusting the base figures for contracting enterprises. Dynamic contracting not only requires the accurate prediction of profits before the commencement of contract, but also requires the modification and readjustment of these base figures at the end of the contract period, at which time the base figures of profit will be ultimately fixed. Without powerful and effective working organs, and if efforts are not made to do a solid job of ground level work, it will not be possible to dynamically manage the base figures of profit. Thus, under the unified leadership of the government, it is necessary to bring relevant departments together and organize unified and loose-knit working bodies for the separate management of dynamic contracting. In the light of their own operational characteristics, the departments concerned should collect, analyze, and calculate the changes in factors constituting the base figures of profit for contracting enterprises so they will be in a position to provide detailed firsthand information for the readjustment of these figures at the end of the contracting year or the contracting period.

### Controlling Hidden Losses in Industrial Enterprises

91CE0350A Beijing JINGJI YU GUANLI YANJIU  
[RESEARCH ON ECONOMICS AND  
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[Article by Feng Ling (1496 1545): "The Problem of Industrial Enterprises' Hidden Losses, and Recommended Measures of Control"]

[Text] In recent years a fairly large number of industrial enterprises have experienced decreases in economic efficiency and increases in the amount of losses. More serious still is that some enterprises have a huge amount of hidden losses. If not solved, this problem will affect the consolidation of the achievements from reform and opening up, and will also impede the further development of the economy. Therefore, we investigated enterprises to probe into the issues of hidden losses and regulation in industrial enterprises.

### I. The Phenomenon and Causes of Industrial Enterprises' Losses

Industrial enterprises' losses generally refer to the figures reflected on the books; the difference between real and reported losses is called hidden losses. Based on investigation, the situation of hidden losses in China's industrial enterprises is a rather serious one. On the one hand, the losses that deficit enterprises have on the books only partially reflect real losses. At the beginning of July 1990

the Ministry of Machine-Building and Electronics Industry held a meeting of key enterprises with deficits. Twenty large deficit enterprises that attended the meeting reported total losses of 89.02 million yuan in 1989, but they actually incurred losses totalling 216.95 million yuan. Thus their hidden losses equalled 127.93 million yuan, or more than 1.4 times their reported losses. An enterprise in Yancheng City reported losses of 2 million yuan for the first nine months of 1990, but its real losses totalled 6 million yuan. On the other hand, surplus enterprises also carry a substantial amount of hidden losses in practice. To be more specific, hidden losses are more frequently found in enterprises with marginal profits. An investigation of 50 such enterprises showed that 53 percent carried hidden losses, and the total amount of hidden losses largely exceeded their total profits. Although there are external factors leading to the emergence of enterprises' hidden losses, the fundamental causes lie within the enterprises themselves.

First, enterprises' hidden losses represent the accumulation of many years of problems. Hidden losses have been growing gradually. Some enterprises had relatively larger amounts of profits in the past, but they did not dispose of their loss-making products and scrap products in a timely fashion. As time goes by, the problem piles up and grows more serious, resulting in a constant increase in the amount of losses. When those enterprises face difficult periods, their profits will disappear and the problem of hidden losses will surface. In addition, for a long time enterprises strived only for the one-sided growth of output, without paying attention to improving economic efficiency or to the importance of marketing. This is a direct factor leading to the problem of hidden losses which has occurred for many years.

Second, enterprises' blind production and their unwillingness to promote sales of long-overstocked products has led to a loss in the products' value, which in turn has been translated into hidden losses. In previous years, when social products were in short supply and there was panic purchasing for consumption, enterprises concentrated exclusively on production. They were slow to diversify after economic improvement and rectification produced market effects and changed the relationship between supply and demand. They continued to produce out-dated and unmarketable products. Overstocking goes hand-in-hand with production. At the same time, the pace of adjusting the product structure has picked up in recent years, objectively driving some products out of the market and forcing a few products to be overstocked. In addition, since enterprise stability was accentuated, some enterprises continued producing products that they knew were unmarketable in order to maintain production and to live, thus giving rise to overstocks. More serious still is that some enterprises are reluctant to dispose of products that have been overstocked for a long time, or products which retain their book value and become bad accounts. Real losses are therefore covered by nominal profits.

Third, managers' short-term behavior and policy errors have lead to the problem of hidden losses. The policies and regulations on prices of raw materials and on depreciating industrial enterprises' fixed assets are far from what is practical or needed. In addition, some contract managers have serious short-term behavior. This has accelerated the formation of hidden losses. The major forms of short-term behavior and policy errors follow. First, equipment capacity is exhausted. Equipment is seriously damaged within the specified year limit, and the equipment's service life is reduced. Second, the depreciation rate is excessively low and the depreciated amount is under-reported, which leads to inconsistencies between the book value and real value of the underlying assets. For a long time, the depreciation rate for fixed assets has been only 4 to 6 percent. The cycle of equipment renovation is about 20 years, which is not in line with the equipment's real service life. At the same time, in order to fulfill the target for the current year's contracted profits, many enterprises under-report depreciated funds, thus distorting the costs of the enterprises and leading to hidden losses. Third, the difference in prices of raw materials is unreasonably utilized, which also gives rise to hidden losses. Enterprises' raw materials computed at current or past prices will have different impacts on enterprises' profits and losses. In order to obtain greater contract profits, some contract managers often use past prices for raw materials. The difference between current and past prices are then translated into hidden losses in practice.

Fourth, profits are falsely reported, which also leads to hidden losses. In contractual operations, the profit figures have an important impact on the contractors in terms of political and economic interests. Some enterprises therefore take the approach of falsely reporting profits so that individuals have a greater share of profits while enterprises incur internal losses. In addition, since it is difficult for deficit enterprises to benefit from preferential policies with regard to credit and so forth, some managers juggle accounts and use nominal profits to cover real losses in order to obtain support for credit, power supply, and raw materials.

## **II. Serious Consequences of Industrial Enterprises' Hidden Losses**

A. Hidden losses distort the accuracy of data about enterprises and thus remove the scientific basis for major operational decisions. Hidden losses are conceived internally within the enterprises and are not reflected in statistical data. This makes it difficult to grasp the real situation surrounding economic activities and operations. Hidden losses do not reflect the real situation of profits and losses, and they will definitely bring undesired results in the formulation of directives and policies for economic work.

B. Hidden losses make the enterprises "anemic" and reduce their potential for development. Hidden losses, in fact, are a form of transferring enterprises' profits and of

"internally exhausting" savings. It signifies the weakening and collapse of enterprises. The greater the hidden losses, the less potential enterprises have for development. In the long run, it will be impossible to achieve self-accumulation, self-transformation, and self-development. Industrial enterprises' potential for development has a direct bearing on the development of the overall national economy. Likewise, hidden losses also have an impact on the national strength.

C. Hidden losses cover up problems with poor enterprise management and low technical standards, thus making it difficult to improve enterprises' overall quality. Hidden losses prevent the real situation from being exposed publicly, thus enabling many enterprises that carry hidden losses to be praised by supervising departments as model enterprises. Many loss-generating products continue to be mass-produced. These enterprises therefore become pleased with themselves; it is impossible for them to work hard to strengthen management, raise scientific and technical standards, and strive for high efficiency. False prosperity that is dependent on hidden losses will do nothing but lead to enterprises' demise.

D. Hidden losses quietly increase enterprises' negative benefits and create a crisis. For many years the problem of hidden losses has never caught the attention of some relevant departments, and thus it has resulted in a constant growth in the amount of hidden losses and in the present astonishing amount of hidden losses. It should be fully recognized that hidden losses in industrial enterprises are a huge hidden threat which may trigger an economic crisis after they have developed to a certain extent. This is not alarmist talk.

## **III. Thoughts About Controlling Enterprises' Hidden Losses**

There are external policy factors and market factors behind the creation of hidden losses in industrial enterprises, but more important, the causes are more often man-made and subjective. One should not wait until the problem becomes a crisis and explodes before solving the problem of hidden losses. A comprehensive treatment should be carried out, considering the circumstances of each and every enterprise, and combining external and internal, objective and subjective, and macroeconomic and microeconomic factors, so as to achieve desirable results as soon as possible.

A. Straighten out the guiding principle for economic work and earnestly center industrial production around economic efficiency. Industrial enterprises' production and operations must center around economic efficiency. This guiding principle should not be challenged. Enterprises should appropriately handle the relationship between speed and efficiency; shift from focusing on speed over efficiency to focusing on efficiency over speed; and resolutely reduce speeds that bring no efficiency with them, with a view to striving for a solid speed with high efficiency. It is true that stability should be given overwhelming priority. When enterprises confront

adversity or even reduced or halted production, however, efficiency should still be the guiding principle for directing the production for self-salvation and development. A unilateral emphasis on stability and blind production which will lead to huge overstocks of products should be resolutely avoided. To use ineffective labor and increase hidden losses in exchange for "stability" will only bring temporary stability, and will not meet the requirement of maintaining stability.

B. Forcefully adjust the product structure, promote production, and increase efficiency. Hidden losses in enterprises are the accumulation of negative efficiency. The fundamental solution to the situation is to promote production, adjust the product structure, and explore the market. At present, it is imperative to open up new prospects; actively pursue adjustments to improve the adaptability and novelty of products; resolutely restrict the production of products that are of a low level, low grade, low quality, and low added value; develop new products and new models; and raise products' grade and quality to meet market demand so as to form a pattern for producing products of high efficiency, high added value, and that earn high amounts of foreign exchange. In this way, it is not only possible to enter the market quickly, but also possible to achieve high economic efficiency to offset hidden losses, thereby providing a fundamental solution to the problem of efficiency. The problem at present is that some enterprises are slow in adjusting their product structures and that enterprises that produce unsalable, uncompetitive and inefficient products cannot be closed, temporarily shut down, merged, or restructured expeditiously. This explains why it is difficult to get rid of hidden losses. In structural adjustment, enterprises should resolutely close, temporarily shut down, merge or restructure themselves in order to seek new points of growth and take new steps to increase efficiency.

C. Take stock of and verify resources, and be sure of the true amount of hidden losses. Hidden losses should be translated entirely into losses on the book so as to reveal the real situation of enterprise losses. This will make it easier to understand the real situation, reinforce corrective measures, and quickly make up the losses. To that end, it is first important to strengthen audits of enterprises and verify enterprises' resources by combining the work of both specialized and enterprise auditors. Relevant auditing departments and auditing divisions of supervising departments in the relevant industry should carry out overall audits of industrial enterprises on a regular and irregular basis. Enterprises' financial departments should also conduct regular audits of their resources and make audit results available to relevant departments, so as to increase the transparency of enterprise resources and subject enterprises to supervision from both workers and supervising departments. Second, it is important to resolutely dispose of overstocked and substandard products and settle enterprises' bad financial debts. Losses will continue to exist and grow if overstocked products are not sold. If these

products can be pushed onto the market and sold at reduced prices, the losses will stop growing and funds can be released to facilitate cash flow, thereby bringing about new efficiency.

D. Specify responsibility for and further improve the system of contractual operations. A realistic analysis should be applied to enterprises' hidden losses that resulted from historical factors. For man-made hidden losses, the responsibility of relevant individuals should be investigated according to the nature of the problem and the amount of the losses. With regard to hidden losses that resulted from insufficient subjective efforts, willful deception, or embezzlement after contracts were obtained, administrative and legal actions must be taken against the relevant individuals so as to educate them and other people.

E. Formulate relevant policies and strengthen and improve enterprises' savings mechanism. First, raise the depreciation rate for enterprises' fixed assets. The excessively low depreciation rate for enterprise assets is a direct cause for the hidden losses. From the perspective of international economic competition and development, in most cases the cycle for equipment renovation is being reduced. The cycle in developed countries has already been reduced to 10 years or less. Some countries even renovate equipment every five years, with an annual depreciation rate of more than twenty percent. Relevant departments of the state should raise the annual depreciation rate for assets to enhance enterprises' financial positions with a view to adding strength to the enterprises. Second, allow enterprises to set up reserves for reduced prices of some products. The reserves will be used to compensate for losses due to unsalable and overstocked products. The reserves may be drawn in proportion to the enterprise's sales revenues so that the value of products that are unlikely to be sold within the next three to five years will be fully recovered. This will effectively prevent the problems of real losses in value and scrap products as a result of long-term product unsalability. Third, allow enterprises to set aside historical losses that have already been handled, so as not to affect the practical interests of existing managers and workers. The banking department may continue to extend credit, and the performance of the contract will continue to be examined in light of current real benefits. Fourth, formulate and improve the distribution mechanism; reinforce the approach of associating manager and worker compensation with the benefits that they have achieved; and correctly handle the relationship between the interests of the state, enterprises, and individuals to prevent the excessive distribution and depletion of enterprises' internal resources. Fifth, strengthen service, guidance, and supervision. Relevant economic and supervisory departments should be geared to the needs of enterprises and grassroots units. They should enhance research and investigation efforts; provide sound guidance and service; help enterprises solve the problem of hidden losses; and help them make correct decisions. They should also help guide enterprises in improving their overall economic efficiency in a timely fashion.

**QIUSHI Urges Increased Macroeconomic Control**  
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[Article by Chen Yuan (7115 0337), People's Bank of China: "Strengthening Macroeconomic Regulation and Control Is Necessary for Deepening Reform"]

[Text] The Chinese economy has gone through 10 years of development and reform which has greatly increased its strength and strengthened the flexibility of systems. These 10 years have created conditions for the future further development of our country's economy and for better moving toward the world. However, during this period, there have also appeared various new problems and contradictions. The recent economic improvement and rectification has realized obvious achievements in stabilizing the economy and society. However, some profound contradictions have still not been resolved. It should be especially pointed out that people's ideas on the current issues are far from uniform. These issues include, for example: whether or not the contradiction of demand inflation in our country's macroeconomy at present has been resolved, where the crux lies in the various problems of economic development, how to view the relationship between speed and results and, in future reform, how to handle the relationship between the central authorities, the localities and the enterprises. On all these questions, people all hold their own opinions. Below, I will put forward a few personal opinions.

**I.**

The experiences of our country's economic construction over the last 40 years show that actively trying to maintain a balance between overall demand and overall supply in society is the hardest task. This is the major aspect of the contradiction in our country's economic movement. It should be recognized that the structural base for suppressing overall volume of inflation has not yet been formed in our country, and the mechanism by which investment and consumption "double inflation" is continually reproduced has not been basically changed. Thus, the latent pressure of overall demand inflation still exists. Also, the dislocation in the proportional relationships in the economic structure and the base has not yet been basically changed. Specifically: The surplus production capacity in the manufacturing industry produced through vying for supremacy and duplicate imports has not been thoroughly readjusted; because of the weakness in the market, the method of enterprises passing the load onto the consumers by raising prices is not a feasible one and enterprises' results have seen an overall decline. However, it is difficult to close down, stop the production, merge or transfer the production of the enterprises with poor results; in the distribution of national income, the share of the central financial administration is still too low.

There is a close link between structural imbalance and imbalance in terms of overall volumes. If the current structural contradictions cannot be resolved in a timely

way, the excessive manufacturing industry will further expand, which will further stimulate demand. Thereby, the interest entities subject to inflation will force the central authorities to give further ground in the areas of finances, taxation, credit and prices, which will lead to a reappearance of imbalance between overall volumes. In fact, this danger exists at present and we should pay it full attention. We must continue to implement the policy of cutting back and, when initial results are seen in the readjustment of overall volumes, we must grasp the opportunity to proceed with structural readjustment, and certainly must not waver or pull back half way.

The current structural contradictions and latent inflationary pressures were essentially formed by the dispersal of interests in recent years. If we want to thoroughly resolve the structural contradictions, and avoid a further imbalance in overall volumes, we need to place the readjustment of the interests structure in the prime position in deepening reform. That viewpoint which sees reform only as microeconomic enlivening and blindly advocates the handing down and decentralization of power and the freeing of demand is extremely one-sided. We should recognize that controlling overall social demand to continually maintain necessary market pressure is the basic precondition for enterprise reform. This is a necessary condition for developing a real market mechanism and for fully bringing into play the role of pricing signals to standardize economic development. Thus, we should see safeguarding and developing effective demand restraints as a key point in future reforms.

Enterprises are the cells of the economic organization and should have full vigor. However, this vigor should be built on the basis of overall mutual coordination. As they are cells, they should be able to live or die and be able to circulate. If the vigor of the cells is built on the basis of damaging overall functional coordination, and enterprises can only live and not die and cannot circulate, it will be harmful. These cells will then transcend rational limits and will change into cancerous cells with excessive vigor and not subject to the restraints of the organism.

The enthusiasm of a locality is also necessary for economic development, but this enthusiasm must be of assistance to the stability and coordination of the national economy, and beneficial to the rational division of work and the development of a unified market. It must not assist excessive decentralization or obstruct macroeconomic regulation and control, as in that way it will be blind. The greater the degree of blindness, the greater the degree of harm wrought.

Satisfying the daily-growing material and cultural demands of the people is the basic aim of socialism. However, the raising of the people's standard of living must be established on the basis of the development of production. Our country has a weak base and the limited national income must be used for both production and livelihood. The development of production is, essentially, for improving the livelihood of the people. If we only concern ourselves with immediate distribution, it

will affect our economic development reserves and finally will harm the people's interests. At present, in the consumption sphere there exists the bad tendency of trying to emulate the high-level consumption seen in developed countries. This is completely divorced from China's realities. Tolerating or yielding to this trend, which is divorced from reality, will inevitably produce harmful effects.

That train of thought which sees the further handing down of power as the core aspect and ignores macroeconomic coordination does not understand, or intentionally avoids, the fact that a major cause of the structural contradictions at present has been the excessive decentralization in recent years. If we continue along this line, the only possible result will be that the national economy will be cut up into innumerable separate parts and the overall national centripetal forces will no longer exist. The excessive decentralization of the economy can also lead to decentralization and crisis on the social and political levels. If that happens, the socialist edifice we have constructed so arduously over so many years will end up disintegrating. It should be recognized, even if we do not speak of a unified socialist country like our own, that even the modern capitalist countries will not allow excessive decentralization. Now is certainly the best opportunity to reform, but we certainly should not place all our hopes in microeconomic reform. Without effective macroeconomic control, it will be difficult to maintain economic stability and microeconomic reform will lose its bearings.

## II.

If we are to turn around the situation where we are headed towards decentralization and inflation, the basic avenue is: readjusting the existing interests structure, greatly strengthening the authority and strength of the central government, and breathing new life into macroeconomic regulatory systems; putting in order the relationship between planning and the market; and promoting the progress and reform of our country's economic development in an organized and ordered way. At present, the prime task facing us, in the readjustment of power, is the strengthening of the authority and strength of the central government and breathing new life into macroeconomic regulatory and control systems. This is the primary task of reform.

Whether or not we can, within a certain period, ensure that the central government is able to appropriately recentralize some economic power, primarily financial power, is crucial in determining whether or not we can resolve major contradictions at present and in future. Financial balance is the base and key link in the balance of overall volumes. The economic reforms over the last year or so have, seen overall, achieved the initial goals of "eliminating the swelling," "reducing the heat," and suppressing the pernicious inflation of overall demand. These initial results have been achieved by the central authorities, beginning with the banking sphere, mainly through indirect regulation and control measures. At the

same time, these were supplemented with direct regulation and control, and firm central controls were implemented in the credit, investment, consumption, and pricing spheres. From this we can see the outline of a new centralized mode of macroeconomic regulation and control. After basically getting over the problem of overall volumes, the task of readjustment of the economic structure is the next pressing task. If we are to make use of the current fine situation to solve the structural problems, we need to reorganize and readjust the power and interests structures existing between the various entities, streamline organs and enterprises and further "eliminate the swelling." In this way, the central government will have more strength and power to regulate and control the economy and thus it will have sufficient power to influence the orientation, rhythm and stability of economic development. This aspect cannot be avoided or skirted.

Stressing appropriate centralization anew is something which we have done in response to the problems which exist in current economic life. Over the past 10 years, the central authorities have been handing down power and interests to entities at various levels. This has brought positive results, but economic development has basically been extensive in nature and has brought a number of new contradictions:

- Because of the mischief caused by ideas which are unrealistic and are overanxious for results, people often do not consider the actual conditions needed for the development of the commodity economy. They overlook or negate necessary centralization and seek the absolute decentralization of power. Commercialization has exceeded rational limits particularly in some local and departmental contexts, and even some administrative activities have been commercialized. This has seriously affected the bringing of new life to macroeconomic regulation and control mechanisms and seriously obstructed the healthy development of a unified market.
- The process of handing down power has not involved increasing effective supply or conditionally relaxing intervention in the production and operational aspects of various entities, especially enterprises. Rather, quite the reverse, as it has greatly weakened controls and restrictions on demand. In this way, the greater the power of entities at various levels, the greater the strength of demand inflation. Also, supply capacity has seen further withering, and the contradiction of asymmetry between supply and demand has become increasingly worse in this situation of excessive decentralization.
- More seriously, these changes are intimately linked with the mistaken concept that holds that in the current economic system, the position of all entities should be completely equal and that the interests requirements (mostly demands) of all entities are normal and should be satisfied as far as possible. Subject to this conceptual influence, all enterprises, on



the pretext of these false equal rights, strive for economic resources. This results in serious loss of state resources through various modes and various avenues, and promotes the growth, at higher levels and over a broader range, of "eating from the same big pot" and "the iron rice bowl."

Today, the reforms which have the handing down of power and interests as their main part have reached their end. We should, on this basis, promote what is beneficial and eliminate harmful aspects. We should start from the deep levels, readjust the power, structure and, at the same time as further handing down power where insufficient power has been handed down (mainly in terms of enterprise production and operational powers), we should recentralize that power which should not have been handed down. Our country is a developing country, and the development of the economy is a long-term strategic task. The development of the productive forces does not purely involve expansion and self-renewal on the microeconomic level, but also requires the constant maintenance of a balance between overall macroeconomic volumes, so the national economy can operate normally. This will be in the common interest of all members of society. If we are to ensure that the industrial structure continually changes and is continually raised to a higher level by stages, we must employ industrial policies and corresponding measures, so as to guide limited resources into the necessary spheres, regions and links in a timely way. If we are to strongly develop the international market and fully utilize foreign resources, we need to have the guidance of clear macroeconomic policies, to coordinate foreign activities and to bring comparative advantages into play. These overall tasks all require the central government to bring its organizational, mobilization, and guidance roles into play to coordinate the relationships between the various interests entities. The view that the state can stand by unconcerned and that we can purely rely on enterprises and localities to develop the productive forces through the decentralization model is a narrow and outdated view. The modern economy is a socialized economy, and socialized division of work has expanded to every corner of the economy, giving every cell of the economy new contents and functions. Also, the links and coordination of socialization draws the economic entities at each level into economies of scale at different levels. If we say that the natural economy objectively has the characteristic of being comprised of decentralized separate elements, the social division of work in the modern economy requires a highly developed, unified market and macroeconomic regulatory and control system. Vigorous economic cells must live in a developed, unified market and an environment of powerful macroeconomic regulation and control. The state plays the main role in carrying out macroeconomic regulation and control and, in order to effectively carry out this function, it is necessary to centralize the needed financial and material strengths. At present, the degree of centralization in our country's finances (referring to the proportion state financial revenue constitutes in gross domestic product) is under 20

percent, far below the world average of 36 percent and the 40 percent level seen in the developed countries of the west. In our country's financial revenue, central finances only constitute about 40 percent, far lower than the 60 percent level of the majority of the countries of the world. This situation must be changed. The proportion of our country's financial expenditure used in production and construction is quite high, with a figure of 49.1 percent being recorded for 1988. In some developed western countries, the proportion of finances used in economic expenditure is only 10-plus percent. Thus, the degree of centralization of our country's finances should be a little higher, as only in this way will it be possible to satisfy the needs of all sides.

If we consider economics and politics together, it is necessary to strengthen centralization. China is a broad and vast land with very uneven development, and it is thus essential that there be a powerful central government. If we are to guarantee economic development and political stability, it is necessary to further strengthen the centripetal force of the nation. If we want to further raise the international position of our country, and guard against and exclude interference and attacks by hostile foreign forces, the central government must have sufficient authority. This political authority requires a corresponding economic base. If the situation of economic decentralization is allowed to further develop, we will face the danger of political splits and will be passive and vulnerable to attacks on the international level.

### III.

Does the strengthening of macroeconomic regulation and control and the stressing of necessary centralization mean the abandonment of reform and opening up, and does it mean that we are returning to that situation of the past where "when there is disorder, power is taken back, and when power is taken back, life is squeezed out of the economy"? No, it does not.

First, it is incorrect to sum up necessary centralization simply as the taking back of power. The aim of necessary centralization is to breathe new life into the macroeconomic mechanisms, to strengthen macroeconomic regulation and control and to strengthen the market. In terms of specific methods, there will be both advances and retreats, recovery and handing down. What is meant by advances is that the central regulatory and control powers will extend to all spheres and links of importance to the overall situation. What is meant by retreat is that the central authorities will reduce their power in spheres and links not closely linked with macroeconomic regulation and control, and that departments and regions will reduce their excessive intervention in enterprises. In particular, the state will have to get rid of some of those millstones it should no longer be bearing, so that it can march ahead with a light load. Here, the main millstone referred to is "the big rice bowl" system, whereby the state takes complete responsibility for enterprises and staff and workers. This, system, where the state handles every matter, means that on the one hand



the state shoulders a heavy burden, eats up a large amount of accumulation and finds it difficult to achieve development, while on the other hand it also ties the hands of enterprises and staff and workers, restricting the further bringing into play of their initiative. What is meant by recovery is that we will recover a macroeconomic regulation and control system better able to promote economic development. What is meant by handing down is that the blockades and protectorates erected by localities and departments will be broken down and a unified socialist market will be handed down. Excessive interference in enterprises will be eliminated and thereby enterprises will be able to directly face the market.

Second, strengthening the market is an important aspect in giving new life to macroeconomic mechanisms. The swiftly developing socialist markets have already become the basic venues and environments for domestic economic activities, but the formerly unified domestic market has, under all sorts of unnecessary interference, been split into separate parts. This split has caused market signals to be confused and resulted in market competition which is not standard or full, and thus enterprises in the market are unable to respond correctly to macroeconomic regulation and market signals. However, they do respond very quickly to administrative intervention from the various departments and regions. The result of this is that resources cannot flow rationally and this leads to lack of control on the macroeconomic level.

If we want to strengthen macroeconomic regulation and control capacities, it is necessary to reduce the splitting up of, and interference in, the market through the use of administrative power by departments and regions at various levels, and eliminate excessive interference in enterprises so the intermediate levels are simplified, the market mechanism is transparent, the structure is complete and functions are strengthened. The state will then be able to directly engage in guidance and regulation and control of hundreds of thousands of enterprises through a unified market. Under unified regulation and control and a unified market mechanism, resources will be able to flow and be reorganized, and results will be improved. Developing a market and strengthening the market are necessary preconditions for, and inevitable results of, giving new life to macroeconomic regulatory and control mechanisms. Our country has already come to the historical stage where it is necessary to strengthen the new centralization on the basis of strengthening the market.

Third, strengthening macroeconomic regulation and control does not mean that the central authorities will again directly manage everything. Rather, at the same time as precisely and realistically carrying out direct regulation and control, indirect regulation and control will be developed and expanded, so these two types of regulation and control extend to all corners of the national economy, and "blanks" are not allowed to exist.

Direct regulation and control refers to the central authorities using administrative measures to directly engage in intervention in respect of products or spheres which affect social stability, the national economy and the people's livelihood. In terms of overall value volumes, these are no longer a major problem, but they are still the lifeblood and mainstays of the entire economy, they affect the stability of the overall situation and we cannot relax efforts in this respect even a little. Those which should be managed, should be managed firmly and well, while those powers which have been handed down should be recovered. In terms of development, powerful direct regulation and control must have powerful financial policies and macroeconomic coordination as its base.

The development and expansion of indirect regulation and control is also an important aspect in giving new life to macroeconomic regulation and control mechanisms, as well as an important aspect in the perfection of the planning mechanism. After the 10 years of reform, the situation we face is: Demand restraints strengths have seen development (resources restraints still powerfully exist), commodity economy relationships have greatly expanded, and the market has seen strong development. If we are unable to exercise regulation and control over these economic relations which have already developed, macroeconomic regulation and control will be deficient and powerless, and will lag behind the objective economic development. The market plays a role spontaneously and automatically, but also requires a certain amount of intervention, such as through industrial policies and overall volume controls. That idea that holds that the invisible hand constituted by the market can automatically complete all resource deployment and that it is wonderful and faultless is not a realistic idea.

The power of indirect regulation and control is not affected by it being indirect. In this respect, there are rich experiences in the history of our party. In the early period after liberation, we implemented indirect regulation and control in light industry and the textile industry. At that time, we mainly controlled the markets for the products of light industry and the textile industry, and thereby led light industry and the textile industry, in an overall way, to develop in accordance with our wishes. This practice was quite successful. For a long period, we implemented direct control over quite a large proportion of agricultural production, and implemented regulation and control in sales and marketing, planting, fertilizers, service and such links. In recent years, in the economic improvement and rectification, we have greatly used financial, banking, pricing and other indirect regulation and control measures. Facts have proven that the power of such indirect regulation and control is not inferior to direct regulation and control and, in some situations, it can realize even better results.

In sum, strengthening macroeconomic regulation and control and stressing appropriate centralization is not a simple revival of the ossified structure. Rather it involves, in the new situation, the guiding of reform to a

deeper level and establishing a new structure which accords with the socialist planned commodity economy.

### Reform of Pricing System for Capital Goods

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[Article by Wu Aimin (2976 1947 3046), edited by Shen Zhiyu (3088 1807 3342): "Reform of the Dual-Track Pricing System for Capital Goods"]

[Text] During the Eighth Five-Year Plan, how do we rationalize the pricing of capital goods, that is, how do we change the existing dual-track pricing system for capital goods? Judging from the viewpoint of reform or development, this is an important issue needed to be seriously studied and settled. In particular, it is necessary to point out that as a result of changes in rectifying and consolidating the economic environment, there emerged new hints and problems concerning the dual-track pricing system for capital goods. Therefore, we must think this over again when studying this issue.

#### I. Process of Developing the Dual-Track Capital Goods Pricing System

From its birth to present, the dual-track capital goods pricing system has seen three development stages:

##### A. Preliminary stage (1980-85)

The characteristics of this stage were: There were multiple planned prices of a particular capital goods, which ended the single planned pricing pattern, which was practiced during the previous 30 years. Also, the prices of some products, such as oil and coal, were open to the market, so that the prices of both raw materials and goods derived therefrom were set at a high level.

1. Prices of electronic and mechanical products were allowed to fluctuate. Before and after 1980, the prices of some electronic and mechanical products, which were then unmarketable, were allowed to fluctuate. The bottom range varied from 20 to 50 percent.

2. Prices of some products such as rolled steel, pig iron, coking coal, aluminum ingots, and certain raw materials from the chemical industry, which were under centralized pricing, were allowed to be temporarily set by localities. For products made by medium and small local enterprises, which were subject to the state's centralized pricing, when losses were incurred because of price increases in energy resources and raw materials, temporary prices might be set upon examination and approval by the provincial and city departments, provided that such prices did not exceed 20 percent of the centralized prices. At the same time, it was stipulated that the cost-profit ratio of such temporary prices might not exceed 5 percent.

3. Prices of products, such as coal and oil, exceeding the base figure, were allowed to increase. For certain minerals, which were subject to centralized distribution, the

price of the portion that exceeded the target amount was allowed to be increased beginning in 1983. In 1981, the Ministry of Petroleum adopted the method of concluding contracts on the crude oil base figure, and stipulated that any output of crude oil exceeding the 10,000-ton mark, which was the base figure, might be exported, so that the oil departments might retain the difference between domestic and overseas prices as funds for oil development. In 1983, as a result of a tense situation in the domestic oil supply, the State Council approved to transfer part of the crude oil that was intended to be sold overseas to the domestic market to be sold at a high price.

4. Prices of certain capital goods were allowed to be increased based on their quality. By the end of 1983, the state approved increasing the price of as many as 400 mechanical products by basing on their quality. The price was allowed to be increased from 8 to 20 percent of the price level set by the state.

5. Fuel surcharges were introduced into the electricity charges. Beginning in 1985, the price difference for an electricity network for the use of fuel (including coal and high-price fuel) additionally supplied under the state plan was shared equally with such electricity generated under the state plans in the form of fuel surcharges.

##### B. Expansion stage (1985-89)

The characteristics of this stage were: A pricing mechanism for a particular capital goods was formed, so that there emerged a "dual-track system" pattern in which the planned and market prices coexisted. Thus ending singular planned pricing of capital goods, which had been practiced for a long time.

1. Supervision over the pricing of goods under direct sales were opened up. In May 1984, the State Council promulgated the "Interim Regulations on Further Expanding the Right of Autonomy of Industrial Enterprises." Under the regulations, enterprises were allowed to directly sell part of their capital goods, provided that the price of capital goods did not exceed 20 percent of the price level set by the state. In February 1985, the state lifted the 20 percent limit on direct sales by enterprises of the portion of capital goods exceeding the target level, and opened the prices of such capital goods to the market.

2. The scope of proportional "dual-track system" became applicable to all important capital goods. For example, the dual-track system was applicable to the pricing of highly monopolized products, such as coal, electricity and oil, as well as scarcely supplied nonferrous metals, such as aluminum and copper.

3. The price difference between planned and nonplanned capital goods was wide. By the end of 1985, the price level of nonplanned capital goods was generally higher than that of planned ones by 100 percent. Around 1988, such price difference sharply widened. The difference generally varied from 100 to 400 percent. In the first half

of 1989, the price difference ratio of coal increased from 92 percent in the same period of the previous year to 146.8 percent; that of rolled steel increased from 45.9 percent to 54.2 percent; that of lead increased from 80.3 percent to 94.1 percent; that of sodium carbonate increased from 36.5 percent to 61.5 percent; and that of timber increased from 68.8 percent to 94.6 percent.

4. The proportion of capital goods under direct sales rapidly increased, while that of capital goods under state centralized distribution dropped sharply. The number of products under State Planning Commission supervision through mandatory industrial production plans decreased from about 120 to 60 at present. Its proportion to the national industrial output value dropped from about 40 percent to below 20 percent. Comparing the quantity of goods and materials subject to the state's direct allocation to society's overall resources, the proportion of rolled steel dropped from 62.3 percent in 1984 to 46.8 percent in 1988; that of coal dropped from 51.6 percent to 43.5 percent; that of timber dropped from 44.3 percent to 25.9 percent; and that of cement dropped from 24.1 percent to 13.6 percent.

#### C. Shrinking stage (beginning in the second half of 1989)

The characteristics of this stage are: The market price of capital goods in the dual-track system dropped sharply. The proportion of high-priced goods in the mandatory plans increased. The inventory of major goods and materials increased. The price difference between the two tracks became narrow; and for some products, the two tracks were naturally combined.

Beginning in the second half of 1989, the market price of capital goods dropped with each passing month. Compared to 1988, the market price index of capital goods in 1989 as a whole dropped 6.9 percent. At the same time, the proportion of high-priced goods in the mandatory plans further increased after sharply increasing in the first half of the previous year. A new balance was made between the supply and consumption of 22 kinds of major goods and materials. After their consumption had been greater than their supply in the previous year, there was a balance of 4,980 million yuan. By that year-end, the balance was 41,140 million yuan, or an increase of 13.8 percent when compared to the year-end balance of the previous year. Some products, such as cold-rolled steel sheet, which were in short supply in the past became overstocked. There was even the situation of natural combination of the two tracks where the market price of some chemical raw materials was below the planned one.

According to Statistics Bureau data, in 1989, the proportion of unplanned major goods and materials to the overall resources increased to 60-70 percent. After adjusting for substantial formation, and taking into consideration those high-priced goods in the mandatory plans, the proportion was much higher. This indicated that in the dual-track capital goods system, the proportion of planned pricing was shrinking while that of market pricing was expanding.

## II. Can We Abolish the Dual-Track Capital Goods Pricing System?

Recently, many comrades studied issues concerning the dual-track pricing system. A point of view held that disadvantages of the dual-track capital goods system outweighed its advantages. It advocated that we should actively create conditions to promptly abolish the dual-track system. Another point of view held that throughout the preliminary stage of socialism, the dual-track system might be a vivid manifestation of integration of planning with the market in the area of pricing. On the dual-track system's disadvantages, it argued: (1) The excessively wide difference between the planned and market prices was caused by the external environment rather than the dual-track system. If it were not the overheated economy, or the adopted inflation policies in recent years, and that we maintained a balance in four major areas, the price difference between the dual-track would not be so wide. (2) "Official speculation" and corruption also developed in countries that never adopted the dual-track system. The cause of corruption was the work concerning political power of economy, rather than the dual-track pricing system. (3) The cause of a chaotic circulation was that everyone was a merchant, rather than the dual-track system. (4) The impaired state plans was not the fault of the dual-track system. Rather, it was because the market price rose again and again, while the planned price stood so firm and still that it violated the law of value. Therefore, the current task is not to abolish the dual-track pricing system. Rather, we should create a better socio-economic environment for this system.

It should be said that both viewpoints made sense. However, the former pursued acts with undue haste; whereas the latter excessively stressed the objective conditions, so that it ignored the internal causes for violating the law of value, and for easily bringing about economic chaos.

## III. Dual-Track Capital Goods Pricing System Evolution Trend During the Eighth Five-Year Plan

After a protracted study and thinking on the dual-track system issue, I hold that it is impossible to completely abolish the dual-track pricing system of capital goods during the Eighth Five-Year Plan or for a long time to come. From now on and for a considerable time to come, a limited dual-track system, or a "flexible dual-track system," will be our ideal form of combining planning with the market in the pricing of capital goods.

There are two tendencies on the proper way of evolving the dual-track capital goods system.

First, we should neglect the objective conditions and realities, and act hastily to combine the two tracks. This thinking does not thoroughly understand that we are restricted by many conditions in combining the two tracks in the near future. a. Continue to stabilize the prices, and to control the rate of price increases are our general goals during the Eighth Five-Year Plan. According to the plans, we should control the rate of

price increase to fall within 10 percent by 1992. If we hastily combine the two tracks, it is inevitable that the stability of the general price level would be affected. b. What will be the new pattern after we have combined the two tracks of capital goods? Judging from the progress of reforming and opening up, it is infeasible to have a singular pattern, be it a planning or market one. At present, an opinion widely accepted by the public is to adopt the "plate-type dual-track system" pattern, that is, to vertically divide all capital goods into two categories, namely those subject to full planned readjustment, and those subject to full market readjustment. However, it is also difficult to realize this pattern within a short time. c. There are contradictions regarding the ownership structure, and the planning and supervision system. If we combine the two tracks in the form of a "plate-type dual-track system," we shall inevitably face the following problem: If we put particular products entirely under planned pricing, we must thoroughly carry out mandatory planning for, and supervision over, such products. However, not all producers of such products are enterprises owned by the whole people. Thus, to those medium and small enterprises, which run their operations by relying on the market, and to town and township enterprises, which are subject to mandatory planning and planned price control, it is a violation of the law of value and is, therefore, not feasible. In addition, the enterprises' form of ownership which need such products is varied. Thus, to supply raw materials at the planned prices to those enterprises which run their operations by relying on the market is obviously also a violation of the law of value.

Second, we should be overcautious, and let things develop in their own course. I hold that judging from the overall situation, the future development of combining the two tracks of capital goods will move toward the track of market pricing. Vietnam's successful abolition of the dual-track system in recent years also an elimination of state pricing and the development of market pricing. When the supply of a capital good is greater than the demand, or when contradictions of its supply and demand are eased, we should appropriately abolish the two tracks and move toward the track of market pricing. After moving toward the market pricing track, the above contradictions will never emerge. Nevertheless, some comrades overestimated the difficulties in moving toward market pricing, and had no confidence in combining the tracks. Furthermore, they might have missed the opportune moment for combining the tracks. We should realize that to move toward the market pricing track is inevitable in the development of our dual-track system. The advantages of doing so are continuously increasing: a. The number of goods and materials subject to the state's mandatory plans has been decreasing with each passing year. In 1989, the number of goods and materials subject to the state's centralized allocation was reduced from 27 in the previous year to 24. The proportion of rolled steel subject to the state's centralized distribution to the overall resources of society was reduced from 46.8 percent in the previous year to 40.9

percent; that of coal was reduced from 43.5 percent to 41.5 percent; that of timber was reduced from 25.6 percent to 24.6 percent; and that of cement was reduced from 13.6 percent to 10.3 percent. At the same time, the 1989 delivery of products subject to centralized distribution failed to meet the quantity required by the state's supply and credit contracts. For more than 60 percent of the products, the rate of fulfillment dropped when compared to the previous year. b. The proportion of goods directly sold by enterprises continued to rise. In 1989, cases of failing to deliver the contracted quantity of rolled steel to the state increased 1.3 times when compared to the previous year. Such quantity directly sold by enterprises increased 8.9 percent. Cases of failing to deliver the contracted quantity of coal to the state increased 27.6 percent when compared to the previous year. Such quantity directly sold by enterprises increased 28.5 percent. Cases of failing to deliver the contracted quantity of sodium carbonate to the state increased 42.9 percent when compared to the previous year. Such quantity directly sold by enterprises increased 54.5 percent. c. The proportion of high-priced goods and materials subject to mandatory distribution increased. Beginning in 1988, the state guaranteed only the quality but not the price of a considerable portion of goods and materials that were subject to planned distribution. For example, in 1988, the quantity of high-priced planned rolled steel accounted for one-quarter of the total volume; that of nonferrous metals accounted for half of the total volume. The proportion of such high-priced planned goods continued to increase in 1989. d. The price difference between planned and nonplanned pricing of capital goods narrowed. In 1989, the capital goods price index was 21.2 percent, slightly reduced from the level of 21.5 percent in 1988. However, there had been dramatic changes in the structure. In 1988, the index of the market pricing track was 25.5 percent, whereas the planned pricing track index was 14.7 percent; so that the market price index was 10.5 percent higher than the planned price index. In 1989, the market pricing track index was 18.3 percent, whereas the planned pricing track index was 23.1 percent; so that the market price index was 4.8 percent lower than the planned price index. Compared to the previous year, the 1989 market pricing track index dropped 6.9 percent; whereas the planned pricing track index increased 8.4 percent. Hence, we can see that there was a price increase in capital goods in 1989 mainly because the price difference between the planned and nonplanned pricing tracks, and between planned and nonplanned goods was narrowed. In 1990, the price increase of goods subject to planned pricing was still higher than that of goods subject to market pricing, so that the price difference continued to become narrow.

#### IV. Proposals for Implementing a "Flexible Dual-Track System"

The proposals for implementing a "flexible dual-track system" during the Eighth Five-Year Plan period is made on the basis that: a. It is unlikely that in the near

future, the dual-track capital goods system will be totally combined into a market pricing track. Nevertheless, we must set strict restrictions. The major form of restriction is to reduce the proportion of planned pricing. b. When it is impossible to abolish in the near future the dual-track pricing of capital goods, we may gradually sever their links by implementing substantial management and value management. In other words, this is to allow, with a given time limit, the production and distribution of a particular product to continue to be subject to the mandatory plans, whereas the price of such a product will be set by integrating readjustment with opening up; and to strive to promptly move toward the tier of market pricing. c. As we carry out the rectification and consolidation work, we should use the sluggish market and grasp the opportunity to practice market readjustment when the contradiction between supply and demand of capital goods is eased, when it is suitable to abolish the dual-track capital goods system that has basically stricken a balanced supply and demand, when there is narrow price difference between planned and non-planned goods, and when their the proportion to planned production is low. d. In light of a Chinese economy when everything is in short supply, the basis of our present balance between the supply and demand of capital goods is weak. Whenever there are changes in the economic environment, a new development dislocation will soon emerge, so that the market price rise will run out of control. In order to prevent this from happening again, we may draw lessons from India's experience in implementing the dual-track system, and flexibly control the dual-track pricing of capital goods. We may restore the dual-track system when there is a sharp price fluctuation of capital goods that are open to the market. An advantage of this approach is: In terms of macroeconomics, we can dispel those worries developed following the combination of the two tracks so that the pace of combining the two tracks will be quickened, conflicts caused by the combination will be minimized, it becomes highly feasible and operational, and it is so flexible that we may promptly check the situation whenever there is a sharp fluctuation.

Measures for realizing the above proposals follow:

1. We should maintain a continuous, steady, and coordinated economic development and create a sound environment for combining the two tracks. Changes in China's capital goods market, that is, rise-drop-rise, are interactive with the expansion and contraction of the national economic development, particularly that of industrial production and the scale of investment. It is a requirement of the work of combining the two tracks of capital goods pricing that we should prevent the price of capital goods from sharply fluctuating and to make it smoothly move ahead. Only when the economy develops in a steady and coordinated manner can we maintain a balance in the capital goods, be it in the aggregate supply and demand or in their composition.

2. We should consolidate the planned pricing. We should replace multiple planned pricing with singular pricing;

and on such a basis, appropriately raise the planned price level to make it comparable to the market price and to make preparations for the next step of opening up the pricing. At present, the chaotic situation regarding the planned pricing of capital goods is much more serious than that of nonplanned ones. The planned prices include varied forms of pricing, such as rebate price, temporary local price, cooperative price, high-quality price, floating price, and additional price for exceeding the base figure. In addition, different price levels are set for each of these prices in accordance with the quality of the goods. It was reported that there were over 100 kinds of electricity charges across China. Such a chaotic situation provided an opportunity for some departments and enterprises to hike prices. This thus seriously affected the social and economic life. According to statistics, the planned price level of capital goods which were in short supply would generally be 20 to 30 percent higher than the "official value" set by the State Pricing Bureau when such goods reached users. In dealing with this practice, we may adopt the method of comprehensive pricing, and combine multiple planned prices of a particular product into one. In addition, it is suggested that the state should appropriately revoke the right of various local pricing departments to determine their temporary local prices.

3. We should continue to narrow the price difference between planned and market pricing. During the Eighth Five-Year Plan, we must uphold the principle of "making progress by maintaining stability, which is the focal point" when carrying out price reform. We must continue to maintain that in the structure of the general price index of capital goods, the price increase in the planned pricing track is higher than that of market pricing. We should effectively raise the planned prices of capital goods, such as transport, crude oil, and coal, and continue to expand the proportion of high-priced goods in the mandatory plans.

4. When setting the price for one or two types of cement, we should grasp well in combining the two tracks on a trial basis. At present, the Ministry of Materials is investigating and studying the work of combining the pricing of cement. It is suggested that the Ministry of Materials should take the lead; and that the Planning Commission, Structural Reform Commission, Pricing Bureau, Ministry of Finance, and other departments should participate in the work. They should form a leading group to combine the two tracks on a trial basis when setting the price for one or two types of cement. This is because abolishing the dual-track system is a highly comprehensive reform. It is closely related to reforms in planning, enterprises, goods and materials, and taxation. Therefore, we must consider carrying out other corresponding reforms when combining the two tracks.

5. We should speed up the progress of developing the capital goods market, turn a disorganized market into an ordered one, and make it a rule that all capital goods transactions must be done in the market. In 1988, there were so many companies on the capital goods market

that it was common for a company to be repeatedly exploited by another, so that the market price of capital goods soared. This is mainly because the transactions were not done in the market. To carry out transactions in the market is not only favorable to stabilizing the market price, but also helps market competition, and is favorable to standardizing market rules. In order to really carry out transactions in the market, we must first set the market rules and the purchasers' purchase volume. This may be done by issuing them a purchase permit. Surplus resources after fulfilling relevant contracts may be sold on the open market or through auctions. While we make it a rule that all transactions must be done in the market, we must open the market more to the public. Non-planned capital goods must be subject to open sales. In addition, we should formulate corresponding laws and regulations to supervise the implementation of the above areas.

### Problems With Invigorating Enterprises

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[Article by Lu Zheng (0712 2398) and Jin Bei (6855 8951): "How To Overcome Difficulties With Invigorating Large and Medium Enterprises"]

[Text] The lack of vitality in large and medium state enterprises has become a major problem confronting our economic reform and development. Thus, the invigoration of these enterprises is more than just a measure aimed at overcoming difficulties experienced in public finances and in the production and operation of enterprises. More importantly, it is aimed at resolving problems of economic operation on a deeper level, promoting a complete change of track in the mode of economic operation, and laying a more reliable microeconomic foundation for bringing about a sustained, stable, coordinated, and efficient development of the national economy. We can say that the invigoration of large and medium enterprises is a battle to capture a stronghold. Different ideas and measures have been put forward by different quarters on how to invigorate large and medium enterprises. We think that there should be a consensus on one basic precondition, namely, that we must proceed from the objective reality that important and irreversible changes have taken place in our economic pattern and that we must adhere to the objective laws governing the development of the socialist commodity economy.

#### I. Assessment of the Vitality of Large and Medium Enterprises

The vitality of enterprises refers to the zest shown by enterprises in their production and operation. Specifically, the vitality of an enterprise should embrace the following requirements:

First, its products should have a strong competitive edge in domestic and overseas markets.

Second, it should be able to sustain and steadily improve its economic performance in production and operation.

Third, along with the development of production and the improvement in economic performance, it should be able to increase its profits and taxes turned over to the state, profits retained for its own use, and the incomes of staff and workers.

Fourth, its production techniques should be regularly updated and renovated.

Fifth, it should have a strong rallying force and its staff and workers should demonstrate great enthusiasm in production and work.

Sixth, it should have the ability to build up its own accumulation and to expand and restrain itself.

Based on the above criteria, only about 10 percent of large and medium enterprises across the nation have truly been invigorated. About 60 percent lack vitality but are still able to sustain production, while the remaining 30 percent are in serious trouble.

There are mainly four types of large and medium enterprises which are relatively active in production and operation. They are: 1) A few large enterprises, such as the Shoudu Iron and Steel Complex, which enjoy management autonomy and have the capacity to build up their own accumulation and to expand and restrain themselves. 2) Key enterprises of the state completed and commissioned in the 1980s, which have advanced technologies and equipment and produce products which are in great demand. 3) Enterprises which are subject to minimal intervention by the state in matters other than taxation and whose production and operation are totally regulated by market forces. 4) Joint ventures whose products can compete in international markets.

The lack of vitality on the part of enterprises mainly finds expression in the following ways:

A. Large and medium state enterprises have not truly shaken off their dependence on the state. The overwhelming majority of measures put forward in the 1980's for the invigoration of large and medium enterprises have not been implemented. When enterprises run into difficulties in production and operation, they always turn to the state for rescue measures.

B. The proportion of circulating funds retained by enterprises only averages 20 to 25 percent, which is too low. Over 75 percent of the circulating funds come from bank loans. The hefty interest makes it difficult to maintain a normal turnover of funds.

C. In most enterprises, per capita profit retention is less than the actual per capita spending on welfare and medical care. Thus, enterprises lack the ability to expand themselves through technical transformation carried out with their own accumulated funds.

D. The operation and management of enterprises are deteriorating. For instance, problems arising from disharmony between party and government leadership in enterprises are mounting; further steps to optimize the organization of labor are frustrated; overstaffing in enterprises is becoming more serious; labor discipline is lax; and the ranks of staff and workers are becoming dispirited.

## II. Difficulties With Invigorating Large and Medium Enterprises

A. Emancipating overloaded large and medium state enterprises which are "carrying loads on both shoulders."

China's large and medium state enterprises are actually shouldering dual responsibilities. As enterprises, they must shoulder economic responsibilities, engage in production and operational activities, create social wealth, and provide more surplus products for society. As social organizations, they must shoulder social responsibilities, such as social security, medical care, welfare, housing construction and allocation for employees, nursery services and schooling for their children, public order, and other facilities. This is what we usually mean by enterprise-run communities. This practice of "carrying loads on both shoulders" has turned our large and medium state enterprises into "urban people's communes" with political, economic, and social functions, rather than enterprises in the true sense of the word.

According to the laws of the commodity economy, enterprises should be relieved of those social functions which ought to be provided by the government and social organizations so that they can concentrate their resources on the development of production and the improvement of their operation. In the final analysis, this will help increase the vitality of enterprises, promote the development of production, and improve economic performance, and will ultimately strengthen the economic capability of our government and society to tackle these social problems. The question lies in how to go about relieving enterprises of these social burdens. If our enterprises are relieved of these burdens, our government and society could not cope at this stage. The vitality of enterprises will be seriously affected if this problem is not tackled.

B. Resolving the contradiction between the expansion of enterprise accumulation and the increase of state revenue.

Under the conventional system of unified receipts and payments, the state takes away the bulk of enterprises' profits and most of their depreciation funds. This practice does not allow enterprises to form their own pool of funds. Large and medium enterprises have, over the years, lost their ability to gradually build up their own accumulation of funds and to make self-improvements. As a result, much remains to be done in the way of technical innovation and updating equipment. Now that these enterprises are urgently in need of large-scale

transformation and renovation, who is going to foot the hefty costs? If they all rely on financial appropriations, it will be beyond the financial capability of the state. If we substantially increase the depreciation fund and offer tax cuts to enterprises, state revenue will be directly affected. If enterprises rely on bank loans to finance their technical transformation, the general understanding is that state enterprises still lack the necessary internal mechanism to bear market risks and, on the other hand, they are reluctant to be saddled with excessive interest burdens out of their own considerations. The thing is, without technical transformation and renovation, it is almost impossible to develop new products and steadily improve economic performance and, without new products and good economic performance, it will be very difficult to open up and occupy markets. Losing the market means losing the vitality.

C. Resolving the contradiction between the improvement of efficiency and disguised unemployment.

Large and medium state enterprises have surplus labor power. Overstaffing has been a longstanding problem in these enterprises. Investigation and analysis of some typical cases show that reducing the staff and workers of state industrial enterprises by 25 percent or more will not affect the fulfillment of production tasks. The sheer size of redundant personnel increases the wage content in unit-product cost, thereby making it impossible to give full scope to the advantage afforded by low labor cost. In order to improve the efficiency of enterprises, the optimum organization of labor was practiced a few years back. Later, this halfhearted reform measure was abandoned for fear of affecting social stability. When the goals of improving economic efficiency and bringing about social stability contradict each other, we are often forced to sacrifice economic efficiency in favor of social stability. An important reason why the state has been unable to put an end to its weak budgetary constraints on state enterprises is that enterprises have no way of improving their weak constraints on the labor behavior of their employees and reduce the number of redundant personnel. In the course of the deepening of reforms, whether or not disguised unemployment in enterprises can be turned into open unemployment in society poses a major obstacle to the deepening of enterprise reform.

D. Resolving the contradiction arising from the fact that the income of employees of large and medium state enterprises is obviously below that of employees working in partially or wholly foreign-owned enterprises or in tertiary industries.

Under the conventional highly-centralized system, the income of employees working in different trades and professions was more or less on a par. While their income was admittedly low, grievances were few and far between. Over the past 10 years, employees in large and medium state enterprises have seen substantial increases in their income and marked improvements in their living conditions. However, because of major changes in the economic sectors and distribution patterns, and due



to disparities in the degree of economic policy preferences, the incomes of some employees working in partially or wholly foreign-owned enterprises and in the tertiary industries are obviously higher than those paid to employees in large and medium state enterprises. This has led to a relative decline in the economic status of the latter and has greatly affected the mood and production enthusiasm of employees in large and medium state enterprises. In some state industrial enterprises, the phenomenon whereby employees do not exert themselves while on duty and take up secondary employment after work is becoming more and more widespread. Some engineering and technical personnel also seek opportunities for transfers outside in the hope that they can find better jobs. However, it is not possible at this stage to substantially raise the income of employees in large and medium state industrial enterprises to a level commensurate with that of employees working in partially or wholly foreign-owned enterprises or in the tertiary industry. The obvious disparity in income has also affected the stability of the ranks of staff and workers of large and medium state enterprises and dampened their enthusiasm for labor. This is another problem confronting invigorating large and medium enterprises.

### III. Disparities in Policy Options in Problems With Invigorating Large and Medium Enterprises

At present, efforts are being made by different quarters to study possible measures for the problems invigorating large and medium enterprises. However, there are obvious disparities in their policy options. Briefly, there are the following three main options:

A. In the problems invigorating large and medium enterprises, should we adopt the policy of "guarantee" or should we adopt the policy of "letting go"?

The so-called policy of "guarantee" refers to the policy of "double guarantee." In other words, in the supply of funds, energy, raw and semifinished materials, and communications and transport facilities, preference should be given to large and medium enterprises to ensure that the "national team" can enjoy a privileged position in competitions. In terms of organizational measures, it favors the re-centralization of those large and medium enterprises which were handed down to the local authorities a few years ago. The relevant leading departments of their respective trades at the central level should be made directly responsible for the manpower, financial and material resources and the supply, production and marketing of these enterprises.

Proponents of the so-called policy of "letting go" believe that the policy of "double guarantee" has encouraged the tendency for enterprises to look to and rely on the state for help and has weakened their keenness to participate in competition. Large and medium state enterprises lack vitality mainly because the market mechanism still does not have a profound and extensive role to play in the

production and operational activities of these enterprises. The weak budgetary constraints of the state have kept these enterprises from truly bearing the brunt of market pressure and risks. Thus, rather than adopting preferential and protective policies toward these enterprises, we should make a determined effort to push them to the market, intensify market competition, and resort to the principle of fostering the superior and eliminating the inferior, to invigorate them and maintain their vitality.

B. On the question of the problems invigorating large and medium enterprises, should we mainly rely on the enterprises to improve their internal operation and management, or should we mainly work on the external conditions of production and operation?

General departments in charge of macroeconomic management held that during the decade of reform, the fundamental policy was to decentralize power and concede profits to enterprises. Their view was that, in the future, concessions should no longer be made to enterprises on matters of profit. In their opinion, the key to the problems invigorating large and medium enterprises lay in the strengthening of their "internal organs." Efforts must be made to improve the quality of enterprises, tap their latent potential, and improve their management and operation.

Most enterprise directors and managers believed that large and medium state enterprises lacked vitality mainly because they were not truly given autonomy. They reckoned that the state took away too much profits from large and medium enterprises, that market organization and regulation were far from perfect, and that the macroeconomic environment was deteriorating. In their opinion, large and medium enterprises should concentrate their efforts on improving the external environment of production and operation.

C. On the question of overall economic control, should we adopt a policy of "relaxation" or should we adopt a policy of "tightening up"?

The justification given by proponents of the policy of "relaxation" is: The major problem currently confronting the large and medium enterprises was that there is insufficient demand for essential products on the market. Many enterprises have large overstocks because their products are unsalable. These enterprises were forced to slash their production tasks but they had to issue wages to their staff and workers all the same and were not in a position to cut their regular expenses. As a result, these enterprises sustained heavy losses and could not maintain their production and operation. In order to invigorate the large and medium enterprises, they reckoned that efforts must be made to relax overall economic control, stimulate social demand, promote the heating up of the economy, and create more lively market conditions for enterprises to conduct their production and operation.



The justification given by proponents of the "tightening up" policy is: After two years of retrenchment, not much headway has been made in readjustment of the current asset structure and not much change has yet taken place in the operational mechanism of enterprises. Under the circumstances, if we abandon the policy of retrenchment and rely on acceleration of economic growth to create market conditions for the problems invigorating large and medium enterprises, we will only aggravate the structural imbalance, touch off a fresh spell of inflation, and plunge the economy into another malicious cycle. Only by adhering to the policy of tightening up and leaving supply slightly in excess of demand can we maintain economic stability, strengthen market competition, and force enterprises to improve their own quality.

#### IV. Major Measures for the Issue of Invigorating Large and Medium Enterprises

As discussed above, there are disparities between "guarantee" and "letting go," between the "internal" and "external" approach, and between "relaxation" and "tightening up" in policy options for the problems invigorating large and medium enterprises. We believe that the main reason why large and medium state enterprises lack vitality is that the reform of these enterprises has not produced substantial results and the operating mechanism of the economy has not been properly straightened out. Thus, the fundamental way to invigorate large and medium enterprises is to deepen reforms and resolve deep structural problems of economic operation. The following are some of our suggestions:

A. The guiding ideology for the problems invigorating large and medium enterprises should have its emphasis on the replacement of the economic operating mechanism. On the question of macroeconomic regulation and control, we should keep to the direction of shifting the emphasis from direct regulation and control to indirect regulation and control. With regard to the microeconomic operating mechanism of enterprises, we should persevere in the separation of government and enterprise functions, gradually turn large and medium state enterprises into independent commodity producers and operators who are responsible for their own profit and loss, and push these enterprises into the market so that they can regain their vitality through competition.

B. On the question of overall economic control, we should continue to adhere to the policy of prudence and retrenchment. While ensuring that total supply is slightly in excess of total demand, efforts should be made to suitably relax the degree of retrenchment. While ensuring a rational investment structure, efforts should be made to increase investment in fixed assets and bring about a gradual improvement in economic growth. When planning consumption fund growth, priority should be given to policies which can help the peasants increase their income in order to boost rural demand. Measures to increase the income of urban employees must be commensurate with the readjustment of the

consumption structure of urban inhabitants in order to overcome the problem whereby cash income and savings steadily grow while the overstocking of goods increases.

C. Reform the method of ownership of large and medium state enterprises and improve the system of enterprise property rights. Promoting reform of the ownership method does not mean that enterprise property rights must be quantified on an individual basis in order to solicit the concern of the producers and operators. The special traits of the modern mode of large-scale industrial production have determined that this cannot be done. Under conditions of a high degree of socialization and concentration of capital, the shareholding system is an effective means of soliciting the concern and sense of responsibility of producers and operators. Risks in the stock market will bring pressure to bear on the producers and operators. In this way, it will be possible to assess the production and operation of enterprises through the market and achieve the socialized supervision of enterprise behavior, thereby effectively ending the weak budgetary constraints of the state on state enterprises. Thus, we advocate taking positive steps to promote the experience of pilot projects and gradually extend the scope of the shareholding system.

D. Gradually reduce the scope of mandatory plans and bring the production and operational activities of large and medium enterprises into the orbit of market regulation under the guidance of state plans. The double regulatory mechanism which combines planned regulation with market regulation currently at work in production and operation in large and medium state enterprises has put enterprises in a spot. It is neither recommended, nor realistic, to try to restore and extend the scope of mandatory planning in large and medium enterprises. However, because large and medium enterprises require large quantities of energy and raw and semifinished materials, and have simple channels of marketing and relatively stable buyers, it is not in keeping with the objective requirements of the mode of production of large and medium enterprises to leave their supply, production, and marketing completely to market regulation.

We advocate first replacing mandatory state plans with the placement of orders on enterprises, then gradually moving on to the establishment of relatively stable ties of supply and demand through the conclusion of supply and marketing contracts between enterprises. This will ensure the supply of energy and raw and semifinished materials to large and medium enterprises and will smooth the channels of marketing. At the same time, we must strengthen market regulations, including the legal system, in order to ensure the normal progress of the supply, production, and marketing activities of enterprises.

E. Straighten out the chains of distribution between the state and enterprises and introduce the system of regressive income tax for enterprises. In our efforts to resolve

the contradiction between expanding enterprise accumulation and increasing state revenue, we should concentrate on building up the reserve strength of enterprises to lay a solid foundation for the sustained growth of state revenue. At present, the tax burdens of large and medium state enterprises are obviously heavier than the tax burdens of other types of enterprises. In the second round of contracting, we should not increase the tax rate (including profits turned over and other charges) in a disguised form as we have done in the past. Our policies should, as far as possible, create conditions for fair tax burdens and competition between enterprises. We can also consider introducing the system of regressive income tax for enterprises, that is, reducing the income tax rate as the profit of enterprises grows. In this way, we can overcome the drawback of "whipping the hard-working cattle," arouse the enthusiasm of enterprises, and increase the ability of enterprises to build up their own accumulation while ensuring the stable growth of state revenue.

F. Clear the "quasi-levies" shouldered by enterprises. At present, enterprises are also required to pay all sorts of "community charges," which are similar in nature to tax levies, in addition to profits and taxes turned over to the state. Among these "community charges," some are in place of state expenditure while others are encroachments by social bodies into the profits of enterprises. We must sort out these "quasi-levies" in real earnest, try to incorporate these levies into official taxes, and make them known to the public. Double taxation of taxes and charges already levied should be strictly prohibited. (For instance, since profits and taxes turned over by enterprises already cover social security and administrative expenses, no department may collect charges from enterprises in the name of social security and administrative expenses.) It is suggested that the State Council draw up regulations on the levying of charges on enterprises, and make them legally binding. All social organizations must apply to, or file with, the state taxation management departments if they want to levy charges on or raise funds from enterprises. Unauthorized apportioning will be regarded as the private levying of state taxes and will be punishable in the same way as embezzlement of state property and the undermining of the state's tax base.

G. Gradually resolve the problem of a low rate of depreciation of fixed assets. The current rate of depreciation of fixed assets is too low, but it is unlikely that this rate can be significantly raised in the near future. The following three-step approach may be considered. Step one: Cancel the "two funds" turned over to the state from the depreciation fund. (Originally it was stipulated that this measure would only be in force for two years; it has now become a long-term charge.) Step two: Verify the replacement value of fixed assets in large and medium enterprises, and allow enterprises with the necessary conditions to draw depreciation funds on the basis of the replacement value of fixed assets. Step three: Raise the rate of depreciation step by step and introduce a special system of depreciation for particular large and medium enterprises.

H. Open financing channels outside enterprises. At present, financing outside enterprises mainly takes the form of state investment and bank loans, but these fall far short of the needs of large and medium enterprises for funds. As conditions for the opening of the securities market gradually ripen, and the further opening of the country to the outside world has broadened the prospects of international financing, large and medium enterprises should be encouraged to take positive steps to open up channels of external financing.

To lend support to external financing, the state should draw up the relevant policies, laws, and systems as quickly as possible so that enterprises can overcome their shortage of funds on the basis of fairly stable predictions in a more open and transparent financial environment. Large and medium enterprises have solid strength and are usually more creditworthy. If they can operate in a satisfactory financial environment, they will have the ability to achieve satisfactory results in fund raising.

I. Reform the labor and employment system and the social security system on the principle of improving economic efficiency. We should continue to promote the optimum organization of labor. To this end, we may adopt the method of "first digging the ditches and then pumping in water" to cut down the surplus labor of enterprises. Enterprises should first organize their surplus staff and workers to run tertiary industry or open up other venues of production. These operations should gradually be separated from the parent enterprise in order to put an end to the situation where the profits of many large and medium state enterprises are eaten away by their affiliated service companies. The ultimate objective of this measure is to give enterprises the power to lay off personnel on their own while establishing an effective social security system against unemployment. Through the unemployment mechanism, it will be possible to exert pressure on working employees and bring about higher labor efficiency.

J. Strengthen the operation and management of enterprises. At present, most enterprises have a wait-and-see attitude. That is to say, they are waiting for the macro-economic environment to change, waiting for the state to give them policy preferences, or waiting for the higher authorities to assign them "better people." In order to strengthen enterprise management, we must first overcome this wait-and-see mentality. The other thing is, our enterprise management is not in want of methods or technical means but the spirit of strictness, conscientiousness, and responsibility. In fact, some of the most fundamental methods of scientific management advocated by Taylor at the turn of the century have not even been implemented in many of our enterprises. In order to strengthen enterprise management, the most pressing task of the moment is to emphasize the importance of "strictness."

### QIUSHI on Economic Structural Reform

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[Article by Ma Hong (7456 3163): "Present State, Prospects for China's Economic Reform"]

[Text] Since the late 1970s, China has been restructuring its traditional, highly centralized economic system and working on a new economic system that combines the planned economy with market regulation. Although China started its reform considerably later than most other socialist countries, it has aroused the interest and concern of many with the unique approach and achievements of its economic restructuring. Since the commencement of the rural reform in 1979, China has been carrying out reform for 12 years. How should we evaluate the reform over the past decade and more? How far has our reform gone? What are the problems of economic operation? In what direction should economic reform develop in the next five or 10 years? What are the key tasks and steps of reform? These are questions of concern to all of us. Here, I wish to discuss some of my views on these issues.

#### I. China Has Made Important Headway in its Economic Restructuring

China's economic restructuring is the self-improvement and development of the socialist system. Its basic objective is to reform the traditional, highly centralized economic system, develop the socialist planned commodity economy, establish an economic operating mechanism which combines the planned economy with market regulation, invigorate the microeconomy while maintaining macroeconomic harmony, and combine the strong points of planning and the market while steering clear of their drawbacks. China's reform has been developing in this direction all these years. In our future reforms, we will continue our exertion in this direction with a view to establishing a new system of socialist planned commodity economy. A question of concern to most people now is to what extent has the Chinese economy shaken off the traditional and centralized mode and to what extent has the new economic operating mechanism been adopted after more than 10 years of reform. On this question, views differ among Chinese economists. Some think that the old economic system, with mandatory plans and administrative intervention as the mainstay, is still playing the leading role in our economic life. Others hold that the role of the market mechanism is gradually strengthening, that major changes have taken place in the methods of macroeconomic management by the state, and that the old system no longer plays the leading role and we have entered the threshold of the new system. Basically I subscribe to the latter view. In the reform of our economic system, although we have not been able to make a complete transition within a short time as some people envisaged, local and gradual reforms have never stopped and elements of the new

system have been steadily growing to perfection through exploration. The following concrete examples may serve to illustrate my point.

**1. Tremendous successes have been achieved in rural reform.** On the basis of preserving the public ownership of land, the system of contracted responsibility on the household basis with remuneration linked to output has been widely put into practice. While ensuring the fulfillment of state purchase plans for farm products, the peasant households are entirely free to decide what to produce, how to produce and how to distribute these products. Thus, ownership and operational rights are effectively separated. The fact that the peasants have secured the benefit of personal independence and relatively full decisionmaking power in production and operational matters has greatly aroused their enthusiasm. Over the past 10 years, the total value of agricultural production has been growing at a rate of 5.9 percent a year. Thanks to our successful rural reform, our country has secured a reliable material foundation for the improvement of people's livelihood these past 10 years and more. Some people see the rural reform as developing in the direction of privatization. This line of thought does not tally with reality. In our rural areas, land is publicly owned, and so are large irrigation facilities and farm implements. Township and town enterprises as well as pre- and post-production agricultural services are also collective in nature. Thus, our rural reform represents the self-improvement of the operational modes on the basis of public ownership.

**2. The coexistence of diverse economic sectors (that is, diverse forms of ownership) with public ownership as the mainstay has increased the vitality of our economy.** Under the traditional system in the past, we one-sidedly went after public ownership in the purest sense. By 1978, the output value of industries under whole-people ownership amounted to 78 percent. This, together with the output value of urban industries under collective ownership (which were in fact run in almost the same way as whole-people enterprises), constituted practically the entire makeup of the total industrial output value. In those years, these enterprises which "ate from the same big pot" and had "iron rice bowls" had little economic vitality. Since reform, efforts have been made to develop township and town enterprises in a big way while upholding the predominant position of the publicly owned economy. Preferential policies are being offered to encourage the development of Chinese-foreign joint operations, enterprises run with Chinese and foreign funds, wholly foreign-owned enterprises, as well as individual economies and private enterprises in urban and rural areas, as supplements to the socialist economy. By 1990, the output value of the three kinds of partially or wholly foreign-owned enterprises, as well as individually and privately operated enterprises, constituted 8.6 percent of the total value of industrial production, while that of township and town enterprises accounted for 30 percent. Sometimes we hear people say that Chinese enterprises have not yet freed themselves from government protection and intervention and lack vitality

because they are not in a position to manage their own affairs. Such statements are obviously too sweeping and unrealistic. The truth is, township and town enterprises, the three kinds of partially or wholly foreign-owned enterprises and other economic sectors, which together account for 40 percent of industrial output value, have become independent commodity producers and operators. State-run enterprises are also changing in the direction of becoming independent commodity producers and operators. It should be pointed out that while promoting the coexistence of diverse economic sectors, the leading position of the publicly owned economy is still preserved and the industrial output value of the state and collective sectors still accounts for over 90 percent of the total industrial output value.

**3. A new operating mechanism which combines planning with the market is gradually being established.** Within the sector under whole-people ownership, the proportion of mandatory plans is steadily on the decline as guidance plans which bear obvious traits of the combination of planning with market regulation are gradually becoming an important form of planning. Thus, market regulation is playing an increasingly more important role. The number of products covered by mandatory plans handed down by the State Planning Commission dropped to 65 from 120 in 1984. The number of products covered by mandatory plans handed down by various specialized departments under the State Council dropped from 1900 in 1984 to 380 in 1988. Products covered by mandatory plans handed down by the provincial authorities also saw substantial cuts. The percentage of the national output value of industrial products covered by mandatory plans also dropped from over 80 percent in 1984 to 16.2 percent in 1988, while the proportion covered by guidance plans rose to 42.9 percent. The remaining 40.9 percent was subject to market regulation under the guidance of state plans. Considering that guidance plans are not totally binding, enterprises can, to a large extent, regulate their production in the light of market supply and demand. This means that the majority of industrial enterprises have achieved market regulation under planned guidance in their decisionmaking power in matters of production and operation. Meanwhile, macroeconomic means of regulation and control suited to the development of the socialist commodity economy are being established and strengthened. For instance, through its control of credit and the issuance of money, the state has achieved balance between total supply and total demand, and is carrying out structural readjustment through interest rates, tax rates, pricing, exchange rates and other means. It also attaches importance to forecasts, supervision, regulation and control of individual trades and the national economy as a whole.

**4. As an important economic parameter, pricing is playing an increasingly important role in economic regulation.** Prior to the economic reform, basically all products, be they farm and subsidiary products or manufactured goods, means of livelihood or means of production, were all priced by the state. By 1985, the ratio between pricing

by the state and pricing according to the market for all products and services was about fifty-fifty. In the overall output value of all products and services today, those subject to state fixed prices constitute roughly 25 percent, while the remaining 75 percent are priced according to state guidance and market regulation. In the total value of farm products purchased by the state, state fixed prices account for 25 percent, while 23 percent is subject to state guidance and 52 percent is subject to market regulation. In the total retail volume of consumer goods, state fixed prices account for 30 percent, while 25 percent is subject to state guidance and 45 percent is subject to market regulation. In the total value of capital goods sold at ex-factory prices, state fixed prices account for 60 percent, while the remaining 40 percent is subject to state guidance and market regulation. In actual implementation, however, the part subject to state fixed prices can be very elastic. Take coal and metallurgical products, for instance. The planned allocation and market purchase of coal products each account for about 50 percent. However, in the planned allocation portion, only about 36.5 percent actually implemented the cheap prices set in the state plan. As to metallurgical products, the proportion of rolled steel placed under unified distribution was 37.5 percent. Of this, 71 percent was sold at cheap prices set in the state plan, while 29 percent was sold at high prices. Of the rolled steel sold, only about one-third implemented cheap prices set in the state plan, while the remainder was sold at market prices, guidance prices and high prices set in the state plan. It can thus be seen that even in the case of capital goods, prices are to a fairly large extent determined by market supply and demand.

**5. Major changes have taken place in the operating mode of enterprises, and enterprises are gradually replacing the practice where the state assumes responsibility for profit and losses in a unified way with a system where enterprises assume full financial responsibility.** Under the traditional system, enterprises did not have their own independent economic interests and lacked the necessary decisionmaking power in production and operation. This has become a thing of the past. Over the past decade and more, effective reform has been carried out around the central task of invigorating enterprises. As a result, enterprises have made substantial progress in managing their own affairs and assuming sole responsibility for their own profit and loss. At present, the principal form of enterprise reform is the promotion of the contract system, the core of which is the fixing of financial ties between the state and enterprises in a given mode in order to reinforce the budgetary constraints on enterprises. It primarily involves the verification of a base figure for enterprises (for profits and taxes turned over). Based on business projections for the future, the corresponding percentages of additional profits to be turned over are also fixed. In this way, the profit retention level and the wage level of staff and workers will be tied to the operational performance of the enterprise. Distribution between the state and the enterprise is thus fixed, and the enterprise has its own independent interests. Meanwhile,

with the exception of a small number of enterprises which are required to fulfill mandatory state plans, most enterprises can decide on what and how to produce in the light of market supply and demand under the guidance of state plans. Although there are still many problems over the separation of government and enterprise functions, the contract system is already a substantial improvement on the traditional system in which government administration and enterprise management are integrated. It has become an effective transitional form in the process of the replacement of the old system by the new.

In addition to the contract system, which is practiced in most enterprises, leasing and the shareholding system have also made initial headway. Leasing is mainly practiced in small industrial and commercial enterprises which are poorly managed. The lessee pays the state a given amount in rent, after which it can manage its own affairs and assumes sole responsibility for its own profit and loss. The number of these enterprises is still relatively small. In recent years, the shareholding system has witnessed some progress in many places across the country. Enterprises have been able to manage their own affairs on the basis of more clearly defined property rights relations, and have demonstrated considerable development potential and vitality. It is reckoned that, on the basis of experience gained from pilot projects, the shareholding system with the state having controlling shares and enterprises buying one another's shares, and supplemented by share-buying by individuals, is likely to become an important form of publicly owned enterprise in the socialist economy in the future.

On the whole, major and significant changes have already taken place in the operating mechanism of China's economy. The pace of reform in China is much faster than most people thought, and the actual contents of reform are also much richer than was described by theories put forward. Reform has become the conscious action of leaders at various levels and of the masses. The achievements we have made in our reform have enabled us to see with confidence the success of the socialist reform.

## II. Major Problems in the Current Economic System

Although we have made significant headway in our economic restructuring, the reform carried out in different realms and localities has been unbalanced, and a new management system for the socialist commodity economy is still not fully established. Our economic life is still beset with complicated contradictions, and we still have a series of tough tasks to tackle in our reform. The major problems at present are as follows:

**First, large and medium enterprises still have not been fully invigorated.** In recent years, the economic performance of enterprises has dropped, and the drop in economic performance is particularly serious in large and medium enterprises under whole-people ownership.

This is due both to the effects of the external environment and to the internal operating mechanism of enterprises. From the perspective of external factors, we see that large and medium enterprises are usually assigned a lot of mandatory plans. Products covered by state plans are usually priced by the state and are sold at cheap prices. Large and medium enterprises also have a heavier tax burden than small enterprises, township and town enterprises and the three kinds of partially or wholly foreign-owned enterprises. Seen from the internal operating mechanism, large and medium enterprises are not totally responsible for their profit and loss, and are lacking in business drive. Although the present system of contracted management responsibility is already a big improvement on the practice under the traditional system where the state assumes overall responsibility for the profit and loss of enterprises, to some extent enterprises (particularly large and medium enterprises under whole-people ownership) are still only responsible for profit but not for loss. In other words, the government still gives them support and protection when they sustain losses. Particularly worthy of attention is that enterprise operators are not directly responsible for their profit and loss. This is a fundamental reason why some enterprises have been performing poorly.

**Second, the fact that the pricing structure and the price formation mechanism are anything but reasonable has imposed restrictions on the optimum distribution of resources.** The pricing structure is unreasonable mainly because the price parity of capital goods priced by the state is too small, with the result that the underdeveloped industries become all the more underdeveloped. The following set of figures may serve to illustrate the great disparity between prices fixed by the state and market prices: The market price of coal is 1.7 times higher than the planned price; the price ceiling for crude oil outside the state plan is 2.48 times higher than the planned price; the market price of rolled steel is 80 percent above the planned price; and the market prices of basic chemical products are 11-65 percent above the planned prices. Enterprises producing these products sustain heavy losses because raw and semifinished products are sold at low prices. The fact that they lack development capability is also not conducive to the absorption of funds by these underdeveloped sectors. Meanwhile, because these basic materials are so cheap, many users do not even try to economize on their use. This has resulted in great waste. The unreasonable pricing structure and price formation mechanism has made the restructuring of industries extremely difficult.

**Third, there is a grave tendency for the decentralization of capital.** At present, the decentralization of capital finds expression on many levels. First, there is a decline in the proportion of state revenue in national income and in the proportion of central revenue in state revenue. As a result, the state lacks the necessary funds for key construction projects, and finds itself less and less capable of regulating and controlling the macroeconomy. Second, under the system of contracting at various levels, capital

is scattered and allocated to various administrative regions, enterprises and establishments. Because the necessary circulating mechanisms for production factors are lacking, normal channels for the pooling of capital are blocked. As a result, unit investment is small and overlapping in construction is serious. Rather than heading toward centralization, production is heading toward decentralization to a certain extent.

**Fourth, the new system of macroeconomic management that meets the needs of the commodity economy is still far from perfect.** In the past, the central authorities controlled most funds and materials under the traditional system, and they mainly relied on mandatory plans and other direct administrative means to run the economy. At present, direct means of control have been reduced, but indirect means of regulation and control have not been fully developed and certain administrative departments are not well acquainted with indirect management. In recent years, the state has accumulated some experience in overall control through controlling the issuance of money, the scale of credit, interest rates, and the like. However, in structural readjustment, particularly in the readjustment of the industrial structure, technical structure and organizational structure, indirect means of macroeconomic regulation and control are sadly lacking.

### III. Basic Orientation and Tactics for Future Reforms

After 12 years of searching and probing, the reform of the economic system has achieved major progress in China. The outline of the 10-Year Program for Economic and Social Development and the Eighth Five-Year Plan adopted by the Fourth Session of the Seventh National People's Congress put forward the basic objectives and principles for reform in the coming decade. A major objective is: After another 10 years of hard work, an economic system and operating mechanism which is suited to the development of the socialist planned commodity economy with the public ownership system as its basis and which combines the planned economy with market regulation should have been initially established. This means that in the next five to 10 years, reform in China will neither go backward nor stand still, but will make big strides forward on the basis of the consolidation of existing achievements of reform, and the transition from the traditional system to the new system will be completed. This will be a very arduous task. As we do not have any existing experience to fall back on, we can only rely on bold exploration and creative work both in theory and in practice.

The basic orientation for future reform is to bring about the organic combination of the planned economy and market regulation. Considering that our markets are not fully developed, and that factors pertaining to the old system are still present in many aspects of our economic life, the basic trend of future reform should be to change the functions of planning, that is, the replacement of direct planning, with mandatory plans playing the leading role, by indirect planning, with guidance plans

playing the leading role, promote market growth, further narrow the scope of mandatory plans and suitably enlarge the scope of guidance plans, and give greater scope to the role of the market mechanism.

At present, some people still doubt whether the planned economy and market regulation can be organically combined. Some are even opposed to the idea. Some people think that our only way out lies in abandoning the planned economy and turning to privatization and a purely market economy. This will be a big step backward in history, and naturally we are opposed to it. There are also people who think that socialist public ownership and the market mechanism are not compatible. They are against enhancing the role of the market mechanism. They even attribute to the market all problems and contradictions arising in the course of the replacement of the existing two-tiered structure, and advocate and emphasize the need to restore the traditional system of the planned economy and enlarge the scope of mandatory plans. While these two views serve different purposes, they are both negative about the combination of planning and the market. In my opinion, both views lack theoretical justifications. Contrary to these views, experience at home and abroad has given us ample proof that the combination of planning and the market provides an effective means of optimum distribution of resources. In the developed countries of the West, government intervention in the running of the economy through different ways and means became a general trend after World War II. Some countries even clearly drew up intermediate and long-term plans for economic, technical and social development. The free market economy gradually developed into the so-called "mixed economy" in some countries. The achievements of our reform in the past decade and more have vividly demonstrated the possibility and superiority of the combination of planned economy and market regulation. Without reform in the past decade, the Chinese economy would not have been able to grow at such a high speed, and today's ample supply of commodities would have been impossible. Thus, searching for a socialist way of reform with Chinese characteristics in accordance with the principle of the combination of the planned economy and market regulation will be a task of great promise.

In order to achieve this objective, we must reform our economic system in the following ways in the next five to 10 years:

**First, we must deepen the reform of enterprises and improve the operating mechanism of enterprises.** At present, the main task of the reform of enterprises is to invigorate large and medium enterprises, strive to achieve better economic results, improve the external environment for the operation of enterprises while improving their internal management, tap latent potential, demand better efficiency within enterprises, and gradually turn enterprises into producers and operators that are responsible for their own profit and loss. In making whole-people enterprises assume sole responsibility for their own profit and loss, we should mainly

proceed from the separation of profit delivery and tax payment and put enterprises on an equal footing in tax burdens and competition. Then, we should proceed to separate government and enterprise functions and truly give enterprises decisionmaking power. On the question of the system of property rights, we should conduct experiments on the shareholding system at selected spots and improve the mode of state asset management. We should improve the system of enterprise leadership, and create the necessary conditions for enterprises to assume sole responsibility for profit and loss by carrying out corresponding reforms on their personnel, labor and distribution systems. We should also implement the insolvency system in accordance with law, and require enterprises to declare themselves bankrupt when they cannot pay their debts. For the purpose of maintaining social stability, the state should, in a controlled way and on a selective basis, allow enterprises with extremely poor performance to close down. In this way, the role of the market as a place where the superior wins and the inferior is eliminated can truly be brought into play. At the same time, a system of unemployment insurance should also be established.

**Second, we must speed up market growth and improve the socialist market system.** Efforts must be made to form a market regulatory mechanism which respects the law of value and the law of supply and demand and which is under the guidance of state plans. First of all, we must actively and steadily promote the price reform, gradually straighten out the pricing structure, establish reasonable price formation and price management mechanisms and put them on a sound basis. The basic orientation is that prices for a small number of important products and services that are of vital importance to the national economy and people's livelihood should be placed under the management of the state, but the prices fixed by the state must reflect the requirements of the law of value and the law of supply and demand. The majority of everyday products should be subject to market regulation. In the intermediate and near future, efforts should be made to resolve the problem of the retail price of grain being lower than its state purchasing price, readjust the prices of the means of production, and gradually eliminate the double-track pricing for these capital goods. The prices of certain products should be gradually brought into line with international market prices. Meanwhile, efforts should be made to further improve the market system, energetically develop capital, technology, information, real estate and labor markets while improving the consumer goods market and enlarging the capital goods market, improve the market regulations, and put market order on a sound basis.

**Third, we must change the management functions of the government and improve the system of socialist macroeconomic management.** The focus of the task of establishing a new system of macroeconomic regulation and control is to reform and improve the socialist planned management system. On the one hand, we must shift from reliance on direct mandatory plans to reliance on indirect guidance plans in our planning work. On the other

hand, we must put an end to the current situation where state plans do not have complete coverage, and make sure that state plans can effectively predict, plan, guide, regulate and control economic activities in society as a whole. We should replace the direct management of enterprises by government departments with management by respective trades, properly draw up programs and policies for different trades, and carry out corresponding reforms on the financial, taxation, banking, foreign trade, labor and wage systems, so that the mode of macroeconomic management and capability of macroeconomic regulation and control can meet the requirements of the development of the commodity economy.

We believe that after another five to 10 years' hard work, the objective of establishing a new system that organically combines the planned economy with market regulation in accordance with the requirement of developing a socialist planned commodity economy and on the basis of consolidating the existing achievements of reform can definitely be achieved on time.

#### Article Views Local Economic Issues

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29 Jun 91 p 2*

["Weekend Commentary" by Yuan Baohua (5913 1405 5478): "Several Questions on Local Economic Work That Are Worthy of Attention"]

[Text] Recently, I went to Henan Province's Nanyang Prefecture, Pingdingshan City, and Anyang City. There, I made some investigations into issues concerning the invigoration of enterprises and local economic development. In my opinion, attention should be paid to problems in the following aspects of our current local economic work:

#### I. Issues Concerning Invigorating Large Enterprises

Large enterprises are the backbone of the national economy, and a major source of national financial income. The central authorities have attached great importance to the invigoration of large and medium-sized enterprises. However, my investigations show that some large enterprises are presently in a difficult position. Among problems currently confronting enterprises, some are left over from history, and others are caused by the present irrational structure. Take the case of the Wuyan Iron and Steel Plant. The plant is one of China's 10 major special steel plants, and the state invested 800 million yuan in its first phase of construction. Due to some specific historical reasons, the plant is currently plagued by a long construction period and many problems piled up over the years. Although it was put into production long ago, the plant has always lacked basically stable working conditions, and is currently faced with the following problems which need urgent solutions: 1) Unguaranteed supplies of burden. Though the state has planned to supply 170,000 tons of burden this year, only 15,000 tons had actually been supplied by the



end of last April. It is estimated that only 80,000 to 100,000 tons can be supplied during the entire year. Insufficient supply of burden may cause this enterprise, which can make profits totaling nearly 100 million yuan under normal conditions, to rank itself among the loss-makers. 2) Insufficient supplies of water and electricity. The reservoir originally designed to provide cooling water was damaged by floods, and the issue of reconstruction remains unsettled because it involves two ministries and one province. 3) Debt chains have increased steadily. At the beginning of 1990, the plant had external debts of only less than 100 million yuan, but now its external debts exceed 200 million yuan. 4) The task of loan repayment is arduous. During the Eighth Five-Year Plan period, the plant needs to repay \$50 million in loans at an interest rate of 9 percent. However, this enterprise's rate of profits and taxes on funds is lower than 9 percent. Therefore, loan repayment is a heavy burden on the enterprise, which will also exert an adverse impact on its second phase of construction. 5) The small amount of retained profits will hinder the enterprise from attaining further development. At present, the enterprise can only retain less than 25 percent of its total profits, of which the percentage put into production development is even lower. As a result, the enterprise evidently lacks the capacity for self-transformation and development. Embodying to a certain extent the difficulties confronting all large and medium-sized enterprises, the difficulties facing the Wuyang Iron and Steel Plant are a comprehensive reflection of deep-level problems in enterprises in terms of management and macroeconomic control and regulation.

In order to invigorate state-owned large and medium-sized enterprises, the party Central Committee and the State Council have formulated a series of policies and measures. According to the general opinions of enterprises, however, these policies and measures have failed to be well implemented in enterprises, which is manifested in the following aspects: 1) Departments responsible for enterprise work and administrative companies have taken back much autonomy that had been granted to enterprises by the state in previous years. 2) The obstacles placed by banks across provinces and regions in breaking debt chains have made the banks lose their leading role in regulating capital. 3) Enterprises are plagued by overstocking of products. In order to relieve themselves of the interest burden, commercial and material departments refuse to purchase products which should be purchased, thus adding to the burden of productive enterprises. The issue of how commercial and material departments give play to their role as a main channel in commodity and material circulation needs thorough study. 4) The policies adopted by local party committees and governments fail to keep abreast of the "Enterprise Law." Various powers granted to factory directors by the "Enterprise Law" have not been put into effect, and departments of various sorts have carried out too much administrative interference in the affairs of enterprises. A rough estimate by the Yubei Cotton Mill shows that if the factory recruits staff

according to the requirements of all sides, nonproductive personnel will exceed the quota by 30 percent. 5) Enterprises are plagued by undue amounts of apportioned expenses. For example, the Pingdingshan High-Pressure Switch Plant has joined more than 40 associations and academies of various kinds. In another case, according to a survey conducted by the Liangwa Mining Bureau in Pingdingshan City, during the first quarter of this year various units have demanded 12 kinds of fees totaling 630,000 yuan from the bureau.

## **II. Issues Concerning Relationship Between Enterprises Directly Under the Central Authorities and Local Authorities**

There exist many problems and conflicts in the relations between local authorities and large enterprises, especially those directly under the central and provincial authorities. Some of these problems are quite serious. Take the case of a number of enterprises engaged in defense production in Nanzhao County. Relations between these defense industrial enterprises and local authorities used to be antagonistic and tense: Local authorities held that "defense industrial enterprises lodged complaints against local authorities despite the fact that they had to rely on the latter for their daily necessities"; while defense industrial enterprises blamed local authorities for attempting to achieve development through "farming, forestry, animal husbandry, sideline production, and extortion of money under false pretenses." Under the difficult situation of a sluggish market, however, remarkable improvement has been shown in relations between the two. Nowadays, the local authorities have taken the initiative to help defense industrial enterprises overcome their difficulties, while the latter also make full allowances for the former's difficulties, both making concerted efforts in building two civilizations.

Problems concerning relations between large enterprises and local authorities are not temporary but very common in many places. Judging from the surface, these problems only reflect problems existing in the relations of interest distribution between the central and local authorities; however, they are virtually problems concerning relations between workers and peasants, to which we should attach great importance and try by every means to find solutions.

## **III. Issue of "Regarding Large Enterprises as Superior to Small Ones" in the Guiding Ideology of Local Economic Work**

Facing relatively backward realities, some local leaders in charge of economic work are overanxious for quick results, fight for investment, start new projects, step up the speed of construction, and give priority only to large projects. They fail to proceed from reality, act according to their own capability, and have an inadequate understanding of the political significance of running township and town enterprises well in the consolidation of grassroots political power in rural areas. It is an important role of township and town enterprises to recruit surplus



labor in rural areas; expedite the development of the local economy; give support to agricultural production; raise the income and living standard of the masses; narrow the gap between workers and peasants; and form close ties between the masses of the people and local political powers. The practice of reform and opening up in the past 12 years has attested to the truth: Township and town enterprises have great vitality, and they are the only road we should follow in promoting the rural economy. Backward areas should regard the development of township and town enterprises as an opportunity to change their backward aspect. The use of qualified personnel is a crucial point in developing township and town enterprises. I once asked Lu Guanqiu [7627 0385 3808] how he managed to invigorate enterprises. Lu said: The township government will not interfere in the affairs of enterprises so long as they can submit to the township government 20 percent of their profits. Moreover, the township government has given qualified personnel a free hand in their work without too much interference.

#### IV. Impact Caused by Governmental Restructuring on Economic Development

The governmental restructuring carried out by the State Council aims at changing the functions and roles of governmental departments, carrying out macroeconomic control and regulation in a sound way, and expanding opening up in the microeconomic field. Judging from reality, it is an arduous job to change the functions and roles of governmental departments. As long as governmental departments responsible for enterprise work have control over money, materials, and projects, a change in their functions and roles will be out of the question. In addition, administrative companies are also trying every means to take back autonomy that has been granted to enterprises, thus putting more fetters on enterprises than governmental departments. The failure of the current decentralized system of investment in concentrating the limited amount of money and wealth within a locality is also a factor leading to long construction periods and low investment efficiency. It is, therefore, an issue we should not overlook. Due to barriers placed between higher and lower levels and between different departments and regions, it is difficult to effectively implement the state's overall macroeconomic plans. In carrying out structural reform, though emphasis has been repeatedly laid on the simplification of administrative structure, the number of administrative organs is actually on the rise. For example, the number of organs in a county government has increased from 50 to 70. In the wake of the state's reform of the banking system, various specialized banks have set up their banking networks at the county level, building their own houses and purchasing their own vehicles. Leaders of relevant counties have to take great pains to coordinate relations between various specialized banks. Comrades working in counties believe that at the county level, which is economically backward, specialized banks need not set up so many networks. Instead, they can

carry out their daily business in a general office under the unified control of local branches of the People's Bank of China.

#### V. Issue of Launching a Campaign for the Year of Quality, Variety, and Efficiency

In accordance with the overall planning of the State Council, a campaign for quality, variety, and efficiency year has been carried out throughout the country. Judging from the situation of areas and enterprises where I conducted my investigations, this campaign initiated by the State Council has met a vigorous response from departments in charge of economic work at all levels as well as various enterprises. In order to achieve down-to-earth results, the crucial point is to avoid doing things as a mere formality. It is imperative to provide guidance to different types of areas, establish targets according to actual ability, work out detailed measures, and carry out repeated inspections and appraisals.

We have learned from experience, lessons, and reality during the past several decades, especially over the past 12 years of reform, that in order to thoroughly solve the aforementioned problems, it is necessary to make urgent efforts in the following three aspects:

A. Policies should be stabilized so as to ensure a steady progress. In grasping their economic work, various localities should abide by the party's ideological line of seeking truth from facts; proceed from reality in everything; carry out their work in accordance with economic laws; estimate their own ability and act accordingly; and attain progress in a stable way. We should by no means set high targets regardless of our actual strength and become overanxious for quick results. In economically backward areas where leaders are faced with greater pressure, more attention should therefore be paid to this issue.

Nowadays, enterprises are afraid of overlapping and changeable policies, which may put them at a loss as to what to do. To avoid such a situation, policy-decision departments should make greater efforts to coordinate various policies, and refrain from blowing their own bugle and singing their own tune, or even transferring problems to lower levels. We should try our utmost to create a relatively stable policy environment for enterprises.

B. Efforts should be concentrated on the implementation of policies formulated by the central authorities. According to comrades in grass-roots units, the spirit of the Seventh Plenary Session of the 13th CPC Central Committee and the State Council's overall plans to invigorate large and medium-sized enterprises are both necessary and timely. However, these enterprises share a common concern: It is difficult to put all these policies and plans into effect. Under these circumstances, it is, in my opinion, an important content of changing the functions, roles, and working style of governmental departments and organs to ensure that instead of making

general calls and transmitting documents, leading departments at all levels should go deep into reality and put into practice the policies and principles formulated by the party Central Committee and the State Council in a down-to-earth manner. Recently, Henan Province set forth a work requirement of "three guards and four practical things," that is, guard against bureaucracy, dogmatism, and formalism; and tell the truth, accomplish practical work, grasp implementation, and achieve real results. This work requirement struck home and, therefore, was well received by the broad masses.

C. Education of cadres is an issue of great importance. The development of a socialist planned commodity economy has set still higher demands on the quality of cadres, who are required to have not only socialist "morality" but also the "capability" to practice commodity economy. Neither should be overemphasized at the expense of the other. At present, it is an urgent need to urge cadres to set an example and serve the people wholeheartedly; to enhance their policy level so that they can proceed in everything from reality and implement the party's policies and principles in a down-to-earth way; and to raise cadres' management standard, eliminate their blindness in making policy decisions, and enable them to make more scientific, systematic, and workable policy decisions.

## PROVINCIAL

### Inner Mongolia Government Work Report

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[Work report of the Inner Mongolia Autonomous Regional Government; delivered by Bu He, chairman of the regional government, at the fourth session of the seventh regional people's congress on 25 April 1991]

[Text] Fellow deputies:

On behalf of the regional people's government, I now submit a government work report to the session for discussion, and also ask members of the regional committee of the Chinese People's Political Consultative Conference [CPPCC] and nonvoting delegates participating in the session to set forth opinions.

#### I. A Review of the Regional Economic And Social Development Situation in the Seventh Five-Year Plan

In the 1980's, the region, like the whole nation, made gigantic achievements in economic construction by taking economic construction as a key link, adhering to the four cardinal principles, and persisting in the policies of reform and opening the country to the outside world. In this period, we successfully fulfilled the Sixth and Seventh Five-Year Plans, and prefulfilled the first-step strategic objective. The region's GNP rose from 6.52 billion yuan in 1980 to 28.49 billion yuan in 1990, showing an increase of 1.4 [figures as published] times

and an annual average increase of 9.3 percent if calculated in terms of constant prices. The national income rose from 5.28 billion yuan to 23.8 billion yuan, showing an increase of 1.4 [figures as published] times and an annual average increase of 9.3 percent if calculated in terms of constant prices. The growth rates were not only higher than the national average but also noticeably faster than the region's annual average increase rates of 5.9 percent and 5.5 percent in the previous 28 years from (1953 to 1980). The output of major industrial products improved compared with previous standings. The region went from being China's 10th largest raw coal producing area to the eighth, from China's ninth largest steel producing area to the seventh, from China's 24th largest electricity generating area to the 17th, from and China's fourth largest timber production area to the third. The region noticeably increased its economic strength and this laid a solid foundation the national economic and social development in the 1990's.

A. The economic structural reform was continuously carried out and new headway was made in opening the region to the outside world. During the Seventh Five-Year Plan period, governments at various levels continuously penetrated reform and opening work in various spheres, and vigorously promoted the development of the economic construction. At the time of further stabilizing and perfecting the system of contracted responsibility on a household basis with payment linked to output, the rural and pastoral areas put the focal point of deepening reforms on setting up and perfecting the socialized service system and offered various forms of services before, during, and after the agricultural and livestock production. The urban reform was comprehensively carried out closely in line with the central link of enlivening enterprises. The region generally carried out the system of contracted responsibility for management of enterprises and the plant director (manager) responsibility system; and set up and perfected, in a step-by-step manner, the system of responsibility for management of enterprises' production, marketing, accounting, and distribution work. All this aroused the enthusiasm of producers and managers and strengthened enterprises' vitality. Relevant reforms were carried out in the planning, financial, commercial, pricing, wages, goods and materials, and banking, and taxation fields. A comparatively good external environment was created for enlivening enterprises. At the time of grasping the economic structural reform, we carried out on a trial basis the political structural reform among banners and counties. In the course of improving the economic environment and rectifying the economic order over the past two years, we firmly attended to the work of controlling the social demand and goods prices, screening companies, and consolidating the circulation order; strengthened the mechanisms of restricting industrial and commercial management, auditing work, and supervisory work; and noticeably improved the economic order. According to the state industrial policies and the region's actual conditions, we brought into play the economic lever functions of the banking, taxation, and pricing departments;

and carried out the policies of giving different treatment to different industries and different enterprises and the policies on giving preferential treatment to major enterprises, thus promoting the readjustment of the industrial structure and the product mix. The deep development of improving the economic environment and rectifying the economic order has created a better social condition for reforms and ensured smooth progress of economic construction.

We made active efforts to open wider to the outside world in the past five years. In foreign trade, we adjusted the export commodity mix in line with the demand of the international market and actively developed the production of the commodities that reflected the characteristics of our region, thus improving our product quality and our capacity for earning foreign exchange through export. While continuously expanding European, American, and Hong Kong markets, we took advantage of our favorable geographical position to expand our trade relations with the Soviet Union and Mongolia. In addition to the two old ports of Erenhot and Manzhouli, we opened four new border trade posts and five temporary cargo delivery posts for border trade. We established economic structural reform experimental zones in Hulun Buir League and Wuhai City and made fairly marked achievements. During the Seventh Five-Year Plan period, the region's imports and exports totaled \$1.82 billion, 3.5 times those of the Sixth Five-Year Plan period. Of the total, the imports and exports of 1990 were \$470 million, 1.5 times more than in 1985. New progress was achieved in border trade, with the volume of imports and exports reaching \$160 million in 1990, which was 8.7 times greater than in 1985. We further expanded our ties with foreign countries. The region has already established economic and trade relations with 61 countries and regions and its scientific and technological, cultural and educational, public health, and sports exchanges with them have also developed. During the five years, the region signed 90 foreign capital utilization projects and the actual amount of foreign capital used totaled \$390 million. Great progress was also made in lateral economic and technological ties. During the Seventh Five-Year Plan period, the region brought in 770 million yuan of funds from other localities of the country and signed 2,100 agreements for economic and technological cooperation projects with them, thus effectively promoting the region's economic development and technological progress.

B. The foundation for the national economy was strengthened and agricultural and animal husbandry production was brought up to a new stage. During the Seventh Five-Year Plan period, governments at all levels regarded agriculture and animal husbandry as the foundation of the national economy, attached importance to them and pushed them to a new stage of development. First, governments at all levels increased their investment in agriculture and animal husbandry, which totaled 3.3 billion yuan, up 57 percent from the Sixth Five-Year Plan period. Second, they paid close attention to farmland capital construction centering on water conservancy

projects. A total of 45,000 water conservancy projects, large and small, were completed, 51,000 supporting pump wells were sunk and farmland guaranteed irrigation increased by 194,000 hectares, up 67, 46, and 17.3 percent, respectively, over the Sixth Five-Year Plan period. Third, they launched extensive activities to develop agriculture and animal husbandry through the application of science and technology. All localities in the region formulated "bumper harvest plans" for agriculture, made great efforts to disseminate technology to help increase agricultural and animal husbandry production and gave close attention to the training of agricultural and animal husbandry technicians, peasants, and herdsmen, thus enabling science and technology to play an ever greater role in increasing the production and income of agriculture and animal husbandry. Fourth, they carried out agricultural development and renovation projects in line with specific local conditions. Throughout the region, 191,000 hectares of newly cultivated land were developed and 472,000 hectares of low- and medium-yielding farmland were renovated. This played a great role in agriculture, especially in increasing grain production. Fifth, they achieved fairly marked results in the rational use, protection, and construction of grassland and in the construction of antidisaster bases for animal husbandry and commodity production bases. During the Seventh Five-Year Plan period, the region planted 3.8 million hectares of grass, built 92,000 hectares of enclosed pastures, where grass and trees were planted and which were supported with the supplies of water, machines, and animal feed, and built in 38 banners and counties antidisaster bases capable of resisting large natural disasters and achieving the steady growth in animal husbandry. Sixth, farm mechanization levels improved notably. The total power of the region's farm machines reached 7.61 billion watts in 1990, up 61 percent from 1985. This played an important role in enhancing the region's comprehensive agricultural production capacity.

During the Seventh Five-Year Plan period, our region witnessed a new situation of stable development in agricultural and animal husbandry production. In 1990, the region's total agricultural output value reached 15.52 billion yuan, up 33.3 percent over 1985, showing an annual increase of 5.9 percent. We reaped bumper grain harvest in four successive years. In 1990, the annual grain output totaled 9.73 billion kg, up 2.95 billion kg over 1989, or an increase of 43.5 percent. The whole region's comprehensive grain production capacity reached 7.5 billion kg or so, thus entering a new stage. During the Seventh Five-Year Plan period, the best records in history were created in the output value of animal husbandry for five years running. The total number of livestock (including hogs) in the region in 1990 reached 53.074 million head by the end of June and reached 42.541 million head by the end of the year, showing an increase of 22.2 percent and 16 percent

respectively over 1985. New progress was made in forestry production and the greening work during the Seventh Five-Year Plan period. Township enterprises witnessed rapid development. In 1990, the total annual output value reached 5.62 billion yuan, up 230 percent over 1985.

C. Industry increased constantly and key products developed by leaps and bounds. During the Seventh Five-Year Plan period, a good development trend was seen in industrial production. Last year, we met with serious shortages of funds, sluggish sales, and overstocked goods. Governments at all levels did everything possible to relax policy restrictions, strengthen sales, and invigorate enterprises, strived to readjust production set-up and product mix, and rapidly ended the downward situation in industrial production. In 1990, the whole region's industrial output value totalled 16.01 billion yuan, up 4 percent over 1989, or up 64.4 percent over 1985, showing an average increase of 10.4 percent in five years which was a period of fairly rapid development. The production capacity of major industrial products expanded noticeably and the quality of products increased by a large margin. Comparing 1990 with 1985, the output of coal increased by 43.9 percent and that of power generation by 110.2 percent. The output of crude oil started from nil and the mining capacity reached 1 million tons. The output of aluminum products increased 116.5 percent, that of steel, pig iron, and rolled steel, increased 60.2 percent, 53.9 percent, and 74.3 percent respectively, and that of cement, 20.2 percent.

D. Outstanding achievements were made in capital construction and the pace of equipment replacement and technical updating was accelerated. During the Seventh Five-Year Plan period, the whole region's completed investment in fixed assets was 30.49 billion yuan, up 14.98 billion yuan, or 96.6 percent, over the Sixth Five-Year Plan period. Of this, the total investment in the fixed assets of state-owned units reached 23.84 billion yuan, which was 1.9 times that of the Sixth Five-Year Plan period.

The investment structure was rationally readjusted. On the one hand, we expanded the investment in productive construction projects. During the past five years, investment in productive projects of state-owned units totalled 11.46 billion yuan, accounting for 74.2 percent of the total investment in this sector, and its proportion rose by 14 percentage point over the Sixth Five-Year Plan period. In the investment for nonproductive projects, we gave prominence to increasing investment in housing construction. A total of 52 large and medium-sized projects were built in the past five years, 22 of which were built and commissioned by the end of 1990. Smooth progress was made in three petroleum projects. The Eren Oilfield was built to become a burgeoning petroleum production base in the grassland on the northern frontier of our country. The 361 km-long oil pipeline was completed and commissioned ahead of schedule. The oil refinery was planned to be completed around National Day of next year. The construction of

five major coal and power projects including the Huolinhe, Yimin, Yuanbaoshan, Jungar, and Dongsheng projects were started comprehensively and some of them were partially completed.

The newly added coal mining capacity increased by 7.19 million tons and the power generation installed capacity, 1.385 million kw in the past five years. The transportation, postal, and telecommunications conditions greatly improved in the Seventh Five-Year Plan period. The state-owned units invested 3.13 billion yuan in improving these conditions, 2.5 times over the figure in the Sixth Five-Year Plan period. Baotou-Shenfu, Huolinhe-Tongliao, and Hailaer-Yimin railway lines opened to traffic. The construction of a double-track railway line between Datong and Baotou was basically completed. The eastern and western sections of the Jining-Tongliao railway line started construction. A total of 1,080-km-long major roads were built and rebuilt. Bridges across Huang He in Lamawan and Wuhai were built. The postal and telecommunications transaction volume rose by 84.7 percent from 1985 to 1990. These newly constructed projects and newly added production capacity greatly enhanced the region's reserve strength for economic and social development.

The Seventh Five-Year Plan period was a period when the region set a record in enterprises' technological progress. In the past five years, the region invested 5 billion yuan in this regard, an increase of 1.6 times over the Sixth Five-Year Plan period. Through technological transformation, the product mix was optimized, economic results increased, and the quality of products improved. In the past five years, the region developed more than 4,000 new products, and accelerated the updating and upgrading of products. The return rate on investment in technological transformation averaged 150 to 160 percent and the profits and tax rate of investment in technological transformation was 35 to 41 percent. Some 80 percent of the region's major products steadily upgraded their quality; and the output value of quality products reached 21.4 percent, an increase of 13 percentage points over the Sixth Five-Year Plan period. Four products won the state quality product golden prize, six products won the state quality product silver prize, 125 products won the quality product prize issued by the ministry, and 608 products were named as the region's quality products.

E. The rate of being financially self-sufficient was further upgraded, and noticeable achievements were made in financial work. In the Seventh Five-Year Plan period, governments at various levels across the region regarded the upgrading of being financially self-sufficient as a major fighting objective; vigorously increased the economic results by extensively and deeply launching the campaign of increasing production, practicing economy, increasing revenues, and reducing expenditures; and greatly increased revenues by strengthening tax collection and management work. The revenues increased from 1.14 billion yuan in 1985 to 3.8 billion yuan in 1990, an increase of 1.9 times and an annual average

increase of 22.8 percent. If calculated in terms of usable financial resources, the rate of being financially self-sufficient rose from 39 percent to 64 percent, showing an annual average increase of 5 percentage points. The expenditures increased with each passing year in the past five years; and the expenditures in the past five years totaled 25.7 billion yuan, an increase of 13.2 billion yuan or more than 100 percent over the Sixth Five-Year Plan period.

In the Seventh Five-Year Plan period, the region made great headway in financial work, and noticeably upgraded the financial work's position and functions in dominating the national economy. All this has made contributions to promoting the region's reform-and-opening-up work and the economic construction. The region's year-end savings deposits rose from 6.43 billion yuan in 1985 to 17 billion yuan in 1990, an increase of 1.6 times and an annual average increase of 21.4 percent; and the remaining sum of loans rose from 10.23 billion yuan to 27.3 billion yuan, an increase of 1.7 times and an annual average increase of 21.7 percent. By the end of 1990, the urban and rural dwellers' saving deposits surpassed, for the first time, the target of 10 billion yuan and reached 11.3 billion yuan, an increase of 36.2 percent over 1989 and 2.9 times over 1985. The region's income from the insurance industry at home and abroad reached 730 million yuan in the past five years, an annual average increase of 42.5 percent. The reparations totaled 270 million yuan in the past five years.

F. Scientific and technological work was further strengthened and new development was achieved in various social undertakings. Governments at all levels and the entire society attached importance to education and increased their investment in it every year. During the Seventh Five-Year Plan period, the education funds allocated by the financial departments at all levels throughout the region totaled 350.1 billion yuan, up 98.8 percent from the Sixth Five-Year Plan period. Schools of various categories at various levels conscientiously implemented the education policies of the party and the state, made active efforts to adjust the educational structure in line with the needs in our region's economic and social development and improved their quality in operation. Elementary education was further intensified and primary school education was made by and large universal in 100 banners and counties. Conditions for instruction and learning were notably improved. The region achieved marked results in eliminating dangerous buildings of primary and middle schools and providing them with sufficient classrooms, desks and chairs and in building central public schools in the sumu of pastoral areas which provide dormitories and stipends to students. Higher education developed steadily, the structure of secondary education became more rational and vocational and technical education took initial shape. The study and use of the languages of minority nationalities were continuously strengthened. The education of minority nationalities was developed on a priority basis, the funds for it increased substantially, the vocational

and technical education for minority nationalities developed fairly rapidly and adult education was brought to a track of healthy development after adjustment and rectification. A total of 93.4 percent of the young and middle-aged people in the region were literate and the illiteracy rate was lower than the national average.

Good achievements were made in science and technology. During the Seventh Five-Year Plan period, 1,621 scientific and technological achievements were scored, up 9.5 percent from the Sixth Five-Year Plan period. Of the total, 22 won state-level awards and 548 regional-level awards. The technology market became more vigorous. Through numerous services, such as technology development, transfer and consultation, more than 1,500 technological contracts were signed in the five years and the transactions exceeded 100 million yuan.

A great breakthrough was made in sport. In the five years, our region's athletes won 362 gold medals at important international and domestic contests, including five gold medals at the 11th Asian Games, and four silver medals at the 11th Asian Games, thus winning honor for the state. Fairly great development was achieved in family planning and the region's 1990 natural population growth was 13.93 per thousand, lower than the national average. Construction of urban infrastructural facilities was expedited and the outlook of cities and towns was notably improved. During the Seventh Five-Year Plan period, the daily water supply capacity of urban areas increased by 554,000 tons and our region became the first region in the country where every county was supplied with tap water. The urban per-capita living space rose from 5.2 square meters in 1985 to 6.2 square meters in 1990. Culture, public health, press, publication, radio, television and film, civil affairs, aid-the-poor, archives, environmental protection, social security, social welfare and other undertakings showed development at varying degrees and played a positive role in building the "two civilizations."

G. Urban and rural markets were thriving and the people's living standard improved notably. The region's commodity retail sales totaled 14.62 billion yuan in 1990, up 76.8 percent from 1985 and averaging an annual increase of 12.1 percent. People's living standard showed further improvement in the Seventh Five-Year Plan period. Urban people's per-capita cost of living income reached 1,050 yuan in 1990, exceeding 1,000 yuan for the first time, up 70.6 percent from 1985. When allowing for inflation, the actual growth was 9.7 percent. The income of peasants and herdsmen increased substantially. Their per-capita net income reached 647.5 yuan in 1990, up 62 percent from 1985. People in poverty-stricken areas basically had sufficient food and clothes. During the Seventh Five-Year Plan period, jobs were provided to nearly 750,000 urban jobless people. Thanks to the endeavor of improvement and rectification, inflation declined by a large margin. The region's

retail price index rose by 2.9 percent in 1990 and the growth rate was 13 percentage points lower than in the previous year.

H. The comprehensive consolidation of public security was enhanced. The social order and morale achieved an obvious turn for the better. During the Seventh Five-Year Plan period, the building of socialist democracy and legal systems made greater progress, the propaganda and educational activities on popularizing the laws were deeply carried out throughout the autonomous region, the people's concept on legal systems was greatly strengthened, and the consciousness of governmental work personnel in conducting their administrative work in line with the law was further upgraded. The autonomous region earnestly implemented the principle of integrating the work conducted by the specialized organs with the mass line and enabled its social order and morale to achieve an obvious turn for the better through the strict struggle against serious crimes and the activities of combating "obscene things" and "six vices." The building of administrative honesty was enhanced, various malpractices were corrected in an active way, and the sense of cadres at all levels in building administrative honesty was further strengthened. The People's Liberation Army [PLA] units, the armed police forces, and the forest police forces stationed in the autonomous region made new contributions to safeguarding the border areas of the motherland, supporting the local construction, and launching the "army-civilian campaign" of building civilized units; as well as effectively maintaining the social stability throughout the region.

All in all, the Seventh Five-Year Plan period is the best historical stage of our region in its economic and social development. During the period, we not only scored heartening achievements in economic construction but also accumulated some precious experiences in the course of building socialism reflecting the Chinese characteristics. These experiences can be summarized into the following several points: First, it is imperative to uphold the principle of regarding the economic construction as a center and concentrating efforts on developing social productive forces. During the Seventh Five-Year Plan period, our region created a situation in which the social productive forces achieved great development thanks to that governments at all levels continued to shift their work emphasis, stressed the central position of economic construction, and relayed to the vast number of people to go all out to build the socialist modernization. Second, it is imperative to uphold the principle of regarding as a motive power the program of conducting reform and opening to the outside world to promote the development of the planned commodity economy. The practice conducted during the Seventh Five-Year Plan period enabled us to more deeply discern that the program of conducting reform and opening to the outside world represents a way of making the region and people wealthy. It is more necessary for our autonomous region whose economy is not developed and whose development potential is very large to bring the enthusiasm of various circles into play through the program of

deepening the reform drive, to apply outside strong points to compensate for its short ones through the program of broadening the open policy, and to achieve in seeking development through the program of conducting reform and discovering more ways through the program of opening to the outside world. The more the economy and society have developed, the more the weight of reforms and the breadth of opening up should be increased. Third, it is imperative to uphold the principle of developing the national economy in a sustained, stable, and harmonious way and to vigorously straighten out the economic relationship among various circles. The principle of developing the national economy in a sustained, stable, and harmonious way represents the deep summarization made in the positive and negative experiences gained in the economic construction since the PRC's founding and also the correct reflection of the economic objective law. During the Seventh Five-Year Plan period, particularly in the course of improving the economic environment and rectifying economic order in the last two years, we vigorously enhanced the macro-economic readjustment and control; paid attention to dealing with the proportion between gross supply and gross demand, between accumulation and consumption, between agriculture and light industry, and between agriculture and heavy industry; dealt with the relationship between the important economic immediate targets and long-term development; and ensured the healthy development of the national economy. Fourth, it is imperative to uphold the party's regional national autonomy policy and to continuously enhance the unity among various nationalities. During the Seventh Five-Year Plan period, we earnestly implemented the party's regional national autonomy policy; vigorously carried out the education on nationalities unity; continuously consolidated and developed the new style nationalities relationship of equality, unity, mutual assistance, and fraternal love; and further strengthened the unity in other fields. All of these represent a fundamental guarantee for our region to achieve success in its work in various fields. Fifth, it is imperative to uphold the principle of grasping the building of material and spiritual civilizations simultaneously and to steadily consolidate and develop the political situation of stability and unity. During the Seventh Five-Year Plan period, while grasping the building of material civilization, we continuously enhanced the building of spiritual civilization and brought about new changes to the people's ideology, concept, and mental attitude. Practice has fully shown that if the economic construction is divorced from the socialist spiritual civilization, it will lose its correct direction and its motive power in making progress. Only by having the program of building the socialist spiritual civilization penetrate the activities of conducting reform, opening to the outside world, and building the economy can we lay a solid foundation in this regard.

During the past 10 years, we achieved gratifying achievements in our region's economic and social development. However, our disparities were also obviously as compared with the advanced localities. These were mainly

manifested in our low level in the whole national economic development, the undeveloped commodity economy, the fairly slow development in various economic sectors other than the state-owned economic sector, the irrational economic structure, the poor enterprise quality, the comparatively low economic efficiency, the fewer methods for invigorating enterprises and the markets, the ineffective measures, and the slow pace in opening up, cooperation and bringing in technology and trained personnel. In particular, we failed to fully emancipate our minds. Many concepts remained to be further renewed. We must look squarely at these problems, redouble our efforts and solve them conscientiously.

Deputies, all the achievements we made were the results of the hard struggle and united efforts of the people of various nationalities across the region under the leadership of the party Central Committee, the State Council and the regional party committee, the active support and effective supervision of deputies and the People's Congress Standing Committee, and active cooperation and participation of the CPPCC, various democratic parties and all mass organizations. Here, let me extend heartfelt thanks to all workers, peasants, herdsman, intellectuals on all fronts, commanders and fighters of the People's Liberation Army [PLA], armed police force, forest police corps, public security cadres and policemen, and persons of all circles who showed concern for and supported our region's socialist modernization construction on behalf of the regional people's government.

## **II. The Region's Major Fighting Objective and Strategic Plans for the Eighth Five-Year Plan and the Next 10 Years**

The next 10 years is a very crucial 10-year period for building socialism with Chinese characteristics, an important stage for shifting the old pattern of economic system to a new one, and a decisive period for realizing the people's long-cherished objective of becoming "comparatively well-off." This new development period is particularly crucial to our Inner Mongolia Region. We must actively participate in the great practice of economic construction, reforms, and opening up of the 1990's with a high sense of historical responsibility and a sense of urgency of the times.

In the next 10 years and during the Eighth Five-Year Plan period, our region's economic and social development must be greatly accelerated. Our strategic guidelines are to display the advantages of natural resources, uphold reforms and opening up, rely on scientific and technological progress, and strive to invigorate the region and make the people prosperous. The major tasks and objectives are to basically realize the immediate three fighting objectives during the Eighth Five-Year Plan period, and to comprehensively realize the second-step strategic objective by the end of this century. That is, based on the 1980 figures, the GNP should increase by more than 300 percent, the comprehensive economic

strength should be greatly strengthened, and the people's livelihood should reach a comparatively better-off level.

To realize the aforementioned objectives and to keep pace with the country's economic development, in the next 10 years, the target for our region's major tasks is: The annual average growth of GNP must be greater than the national growth rate of 6 percent. We plan to "guarantee a 7 percent increase and strive for an 8 percent increase." This means that we must guarantee an average annual growth of 7 percent and strive for 8 percent. Our growth rate should be achieved on the premise of raising economic efficiency and based on intensifying the comprehensive production capacity. It is a practical rate of vitality and momentum. According to the growth rate of 7 percent, by the year 2000, our region's GNP will reach 33.4 billion yuan if calculated in terms of the 1980 constant prices. If calculated in terms of the planned population of 24 million people by the end of this century, the average per-capita GNP may reach 1,392 yuan, which is equivalent to \$934, approaching the national average level of that time; according to the growth rate of 8 percent, by the year 2000, our region's GNP will reach 36.6 billion yuan and the average GNP will reach 1,527 yuan, which is equivalent to \$1,024, slightly surpassing the national average level of that time. If we act in line with the development rate of "guaranteeing a 7 percent increase and striving for a 8 percent increase," we may basically realize the immediate three fighting objectives during the Eighth Five-Year Plan period. The average per-capita grain output may be stabilized at about 400 kg; the rate of financial self-sufficiency may reach 75 percent or so; and the average per-capita GNP will basically attain the medium level of the whole country.

When the aforementioned targets and tasks are attained, our region will become an important energy, raw material, metallurgical industrial, heavy industrial and woolen textile base and an animal husbandry, forestry and grain, oil-bearing seed and sugar production base of the country, rank among the best in some of these fields in the country and achieve further development in science and technology, education and culture. Our region will effect a series of historically significant changes in its economy and society, enter the 21st century as a united, progressive, civilized and prosperous region and lay a solid foundation for attaining the third-step strategic objective.

A. We will achieve self-sufficiency in the supplies of major farm and animal products. In the next 10 years, not only should we by and large achieve self-sufficiency in grain supply, but also we should make contributions to the state; and not only should we achieve a balance in the total demand and total supply of grain, but also we should adjust the regional structure of the various varieties of grain. By the end of the Eighth and Ninth Five-Year Plan periods, our grain output should be stabilized at approximately 9 billion kg and 10 billion kg, respectively, and its total number of livestock (including pigs) for the animal husbandry fiscal year about 55



million head and 60 million head, respectively, and the output of such cash crops as beets and oil-bearing crops will also show new growth. We should strive to export more farm and animal products to other localities.

B. We will become the country's important base for producing various kinds of energy resources. During the Eighth Five-Year Plan period, we will continue to develop the energy projects focusing on coal and electricity production in line with the state's industry policy. The priority is to coordinate well for the construction of the key energy projects of the state built in our region, including the Jungar, Yiminhe and Yuanbaoshan large coal and electricity joint production projects, the second-phase project of the southern open-cut pits of Huolinhe Coal Field, the first-phase project of the Dongsheng Coal Field, the vertical pits of the Gushan Mine in Pingzhuang, the No. 3 mine of the Dayan Mining Area, the No. 3 and No. 4 generators of the first-phase project of Fengzhen Power Plant, the power plant of Horqin Right Wing Middle Banner (or the third-phase project of Tongliao Power Plant) and the first-phase project of Dalate Power Plant. By the year 2000, the region's coal and electricity output will occupy an important position in the country and its petroleum output will increase by more than 100 percent from the current output. While developing energy projects, we will also develop a number of energy conversion and comprehensive utilization projects in a planned manner.

C. Our transportation and telecommunications capacity will be markedly improved. During the Eighth Five-Year Plan period and the next 10 years, we will pay particular attention to the construction of Jining-Tongliao Railway, coordinate with the country in the construction of Harbin-Manzhouli Railway, the doubling-tracking of Datong-Baotou Railway and the Fengzhen-Jungar Railway and strive to accelerate the renovation of the Baotou-Lanzhou and Baotou-Baiyunebo Lines. We should strive to complete the renovation and expansion of Ulan Hot-Tongliao, Yakeshi-Manzhouli, Wulanhua-Saihantala, Jining-Laoyemiao and other trunk highways and highways for national defense. We should give priority to the expansion of Xilin Hot, Ulan Hot and Tongliao Airports and strive to open some new domestic and international air routes. In post and telecommunications, we will develop local automatic telephone and program-control telephone services, continuously increase the number of telephone users, greatly develop long-distance optical fiber, microwave and satellite communications service and actively develop the telecommunications undertakings of banners, counties, towns, townships and sumu. By then, our region's economic development conditions and investment climate will be notably improved.

D. Raw material industries should make new progress. During the Eighth Five-Year Plan period, we will further accelerate the pace of conducting technical renovations in the Baotou iron and steel company and among local iron and steel industries, expand the comprehensive capability of production, and increase the variety of

products. We will develop in a planned manner and in line with the key targets the nonferrous metals, such as copper, aluminum, lead, zinc, and tin, as well as the technologies of mining and metallurgy of precious metals, such as gold and silver; upgrade the level of processing industries; and develop complete-set products. Through technical renovations, we will increase the variety of rare earth products, upgrade their quality, and enlarge the scope of utilizing rare earth products. We will also accelerate the development of building materials, such as cement, glass, and ceramics, and have these products upgraded in quality and grade. In building chemical industries, we will emphasize first the production of support-agriculture commodities, including fertilizer; and accelerate the development of the chemical industries of coal, petroleum, and of saline-alkali. A good job will be done in emphatically building the projects of the Neimenggu fertilizer plant, the Jilantai soda-ash plant, the calcium carbide workshop under the Baotou chemical industrial plant No. 2, and the Tanyaokou sulfur and iron mine. In developing the forest industry, we will define the reasonable volume of cutting trees; expand the proportion among timber products; accelerate the development among the overmature forests at Qiqian, Wuma, and Yonganshan areas; and do a good job in building or repairing the enterprises of pulp and of "three plywood."

E. Light and textile industries should achieve new development. While developing the production of energy resources and raw materials, we will also actively develop the industries of wool, leather, dairy products, bone glue, sugar refinery, pulp, foodstuffs, and of garment processing; do our best to adopt advanced technologies and crafts; upgrade the products in quality and grade; increase the variety of products; develop complete-set products; and strive to upgrade the self-sufficient rate of daily consumer goods and to supply more commodities to both domestic and foreign markets.

F. Machine-building and electronic industries should become the important production of the region. In the coming 10 years, machine-building industries should strive to develop the production of communications and transportation machines, including heavy-duty trucks, mining heavy-duty trucks, repackaged trucks, and railway freight cars, as well as the machines of mining operation; and do a good job in emphatically setting up the production line in the Neimenggu machine-building plants No. 1 and 2. Meanwhile, these industries will also actively develop medium-sized and small tractors, diesel engines, and combined farm machines; consolidate or carry forward the superior position occupied the region's products of wind-driven machines and animal husbandry machines in the country. In developing electronic industries, we will emphatically develop the intensive processing of permanent magnetism materials of rare earth and of specialized electronic materials of aluminum, copper, quartz crystal. We will take a stable step in developing the consumer products with television



set as the backbone and develop new products in a selected way, which are suitable to the pastoral and border areas.

G. We will put a number of new and key projects into construction. The coming 10 years is another "golden stage" of the region in its economic construction. The "proposals" raised by the CPC Central Committee with regard to formulating the 10-year program of the national economy and social development and the Eighth Five-Year Plan have clearly pointed out that the state will enforce the special policy among the key projects of energy resources and of communications and transportation, which will be built in the autonomous region. It has initially defined 64 key projects of construction during the Eighth Five-Year Plan period. Of these projects, 58 are of capital construction, six are of technical renovations whose funds surpass the fixed investment. The total investment in these projects, in addition to the investments made by the autonomous region and localities in the region in the medium-sized and small projects, will reach more than 30 billion yuan. It is estimated that the investments in this regard will further increase during the Ninth Five-Year Plan period. The fulfillment of these key construction projects will enable our region to greatly enhance its practical and reserve strength in economic development.

H. Town-run enterprises will achieve breakthrough development. During the Eighth Five-Year Plan period and in the coming 10 years, we will regard the work of developing town-run enterprises as one of the focal points of the region's strategy of developing its economy and go all out to score results in the development. The general target in this regard is to have town-run enterprises throughout the region show a 20 percent increase in their total output value during the Eighth Five-Year Plan period; and based on the 1990 achievements, to strive to quadruple their total output value or even more by the end of this century. At that time, town-run enterprises throughout the region will not only become the economic pillar of rural and pastoral areas but also the important component of the national economy as a whole.

I. A new pattern of opening to the outside world should be initially formed. In the next 10 years, we should make bigger strides in opening to the outside world, and further enhance our sense and ability of entering the international markets. We should adopt more flexible policies, actively develop the export-oriented economy, strengthen the building of export product bases, expand the sources of foreign export trade, and raise the capacity of earning foreign exchange. The total foreign export trade volume should reach \$480 million by 1995 and \$850 million by 2000. By that time, we will form a new pattern of opening to the outside world characterized by combining domestic trade with border trade, and making import-oriented economy and the export-oriented economy supplement and promote each other.

J. The people's livelihood should reach a comparatively better-off level. Gradually making the people's livelihood attain the comparatively better-off level is an important target of our region's economic and social development during the next 10 years. After realizing the target of becoming comparatively better-off in our region, the material and cultural life of the masses of people will enter a new level. The income of the urban and rural residents should increase by a large margin and reach the national medium level or above. By 2000, the income for living expenses of residents in cities and towns (excluding the factor of price hikes) should increase 48 percent on the basis of the 1990 figure, showing an annual average increase of 4 percent. The average per-capita net income of peasants and herdsmen should reach 1,200 yuan and 1,600 yuan respectively. The means of livelihood should be richer and the consumption structure should be more rational; the housing conditions should be improved noticeably, and the average per-capita living space for the urban and rural residents should reach the national average level of that time; the labor employment issue should be gradually solved; the 9-year compulsory education system (junior-high school stage) should be basically popularized, and efforts should be made to strive for making the senior middle school education universal in large and medium-sized cities, to basically eliminate illiteracy among young and middle-aged people in the whole region, and to further enhance the educational level and cultural standards of the urban and rural residents, particularly among the broad masses of peasants and herdsmen; the construction of all sorts of cultural facilities in the urban and rural areas should be further strengthened, the cultural markets should become more vigorous, and their cultural life should be enriched; the medical and health-care work, particularly the medical and health-care conditions in the rural and pastoral areas, should be improved noticeably and the social welfare benefit should attain a fairly high level.

In line with the guidelines of the seventh plenary session of the 13th party Central Committee and the third enlarged plenary session of the fifth regional party committee, the regional people's government, on the basis of conscientiously summing up historical experiences and conducting in-depth investigations and study, have extensively solicited opinions from various sectors and formed the draft outlines of the "Inner Mongolia Regional 10-Year Program and the Eighth Five-Year Plan for national economic and social development." The "draft outlines" have proposed the major fighting objectives for our region during the Eighth Five-Year Plan period and the next 10 years. To realize these objectives, we have to shoulder arduous but glorious tasks. But, we are full of confidence and have conditions for realizing these objectives. Over the past 40-odd years, particularly since the third plenary session of the 11th party Central Committee, our region has rapidly developed its economy, greatly strengthened the national economic strength, and laid a good foundation for development during the 1990's. Our region has rich natural

resources, and great potential for development and construction. Along with the shifting of the national strategic emphasis to the West and the readjustment of the production set-up, our region will become a region implementing special state construction policies in such aspects as energy, communications and raw materials. This has provided a good opportunity for our region to accelerate its pace in economic construction. Our region enjoys social stability, national unity and political stability. This is a reliable guarantee for us to concentrate energy on grasping economic construction. We are firmly convinced that as long as we make full use of all favorable conditions, firmly grasp the opportunities which the history has bestowed to us, seek truth from facts, work with one heart and one mind, work with pioneering spirit, and rely on the common efforts of the people of various nationalities across the region, it is absolutely possible for us to realize the fighting objectives set for the 1990's.

To attain the goals for the Eighth Five-Year Plan period and the next 10 years, we should adopt the following major measures.

1. We should carry out reform and further enhance our driving force and inherent vigor for development.

In the next 10 years, following the basic principle decided at the seventh plenary session of the 13th party Central Committee, we should further enhance our sense of reform, increase the weight of reform, accelerate the pace in reform, continue to change the production relations incompatible with the requirement for developing productive forces, eliminate the defects in the past systems and initially establish an economic structure and operational mechanism that conform to the development of the socialist planned commodity economy based on public ownership and that combine planning with the regulation of the market force.

We should regard the responsibility system, with household output-related contracts and double contracts for grass and livestock as the major forms, as a basic system for rural and pastoral areas, stabilize it on a long-term basis and continuously improve it. The focus of the future reform in rural and pastoral areas should be placed on developing the multi-layered and multi-channel socialized service system and on establishing and improving the dual management system under which unified management is combined with independent management so as to gradually expand the collective economic strength. We should encourage and develop multiform and multi-channel association and cooperation based on voluntary participation and mutual benefit, gradually establish a specialized and socialized new pattern for agricultural and animal husbandry production in which agricultural (animal husbandry) and industrial production is geared to the needs of commerce and foreign trade, strengthen the service of various quarters to agriculture and animal husbandry and facilitate the transition of the region's traditional

agriculture and animal husbandry to modernized agriculture and animal husbandry.

We should regard the work to invigorate enterprises, especially large and medium-sized state key enterprises, as the central link of the urban economic structural reform and further persist in, improve and develop the contracted managerial responsibility system of enterprises. We should continue to enforce the "enterprise law" and give enterprises all the policies and power that should be given them according to the law. We should persist in and improve the director (manager) responsibility system, defend the central position of directors (managers) in management and give full play to the role of enterprise party organizations as a political core and the role of workers' congresses in exercising democratic supervision. We should deepen the reform within enterprises, continue to optimize their organization of labor, improve and popularize the method of floating the total payroll according to their economic performance, further enhance their inherent vigor and gradually establish a managerial mechanism for independent management, sole responsibility for profits and losses, self-restraint and self-development so that enterprises will truly become socialist commodity producers and managers.

We should continue to deepen the reform of the circulation system and gradually cultivate and establish a new and unified market system. We should continue to carry out and improve the various measures for the reform of the commercial, grain, supply and marketing and material management systems, actively support the development of collective and individual commercial units and gradually establish a circulation network based mainly on state commercial units, supply and marketing cooperatives and material supply departments and supported by multi-layered and multi-channel units of various ownerships. While further improving the market for means of subsistence, we should make active efforts to cultivate and establish the market for the means of production and the fund, technology, information, labor service and real estate markets. We should do a good job in building the infrastructural facilities of the market, succeed in the organization and management of the market and promote the establishment of a socialist market system with regional characteristics at an early date.

In line with state arrangements, we should succeed in supporting reform of the systems for planning, finance, banking, taxation, prices, foreign trade, housing, wages and social security, further enhance the capacity of governments at all levels for macro regulation and control, establish the systems for scientific policymaking and facilitate the sustained, stable and coordinated development of the economy.

On the premise of persistently taking socialist public ownership as the main body, we should go all out to develop various sectors of the economy, such as individually and privately-owned enterprises and enterprises involving foreign capital; accurately manage and guide

the development of these enterprises; give full scope to their functions for benefiting and supplementing the public sector of the economy; widely open employment channels; give convenience to the people's livelihood; and strive to promote the development of the economy.

We should positively and steadily promote the reform of the political structure. According to the party and state relevant policies and specific arrangements, we should conscientiously attend to the reform of the regional-level organizations. According to the requirements for changing functions, balancing the relations between different departments, and reducing the number of organs and staff, we should gradually set up an administrative management system with a complete set of functions, fairly reasonable structures, and higher administrative efficiency. Governments at various levels should further strengthen their service functions, and set up and perfect the procedures and systems for making democratic policy decisions and conducting democratic supervision. We should further popularize Zhuozhi County and Chayou Front Banner's experience in conducting political system reform with the major contents of "streamlining organizations at higher levels, strengthening the construction of grassroots organizations, reducing the number of organs and staff, and intensifying service"; and gradually send the organs' surplus personnel to the production, circulation, and scientific and technological service forefront.

2. We should grasp the work of opening to the outside world, and further develop both the range and quality of economic and technological cooperation.

We should regard the expansion of opening to the outside world and developing lateral economic cooperation as a breakthrough point to rejuvenate the region's economy. According to the special characteristics of the region, we should take the expansion of foreign trade as the foundation, focus on developing economic and technological cooperation, pay equal attention to the economic and trade work, and open the region to all directions. We should pay attention to bringing into play the region's three major advantages and expand the work in three spheres. First, we should bring the region's natural resources into full play; and further expand the region's foreign export trade and economic and technological cooperation ties with Europe, the United States, Japan, Hong Kong, and Macao. Second, we should give full scope to the advantages of being a border port; and further expand the border trade and the cooperation and exchange ties with the Soviet Union, the Mongolian People's Republic, and Eastern European countries. Third, we should give full scope to our geographic advantage of extending across Northeast China, North China, and Northwest China and being adjacent to eight provinces and regions, and positively expand the lateral economic cooperation with brotherly provinces, municipalities, and regions. To realistically expand the scale of opening to the outside world, we should further readjust the export commodity structure according to the international market demands, strengthen the construction of

the export commodity production bases, and strive to upgrade foreign trade's economic and social benefits. We should further develop the two reform experimental zones in Hulun Buir League and Wuhai City, attend to bringing into play on a trial basis Baotou City's overall economic advantages, and make the city play a leading role in opening to the outside world and conducting cooperation with the places in the region. We should positively create conditions, pioneer and build new ports in a well-planned manner, establish trade offices in foreign countries, and add channels and windows for opening the region to the outside world. We should formulate, further perfect, and carry out the preferential policies in conformity with the region's actual conditions, improve the investment environment, and strengthen the region's attractive power to conduct cooperation with the places at home and to bring in capital, technology, and skilled persons.

3. We should bring into play agriculture and animal husbandry's role as the foundation of the national economy and further enhance the economic strength and the reserve strength for economic development.

First, we should further strengthen agriculture and animal husbandry's role as the foundation of the national economy. According to the overall requirements for stabilizing agricultural and livestock production and increasing the income of peasants and herdsmen, governments at various levels should continue to implement the measures for relying on policies, input, and science and technology to develop agriculture and animal husbandry; ceaselessly increase the input to agriculture and animal husbandry; exert great efforts to build farmland and livestock farms; and enhance our natural disaster fighting capacity. We should extensively launch the campaign of relying on science and technology to rejuvenate agriculture and animal husbandry, and upgrade the overall agricultural and livestock production capacity. It is necessary to accelerate the development pace of mechanizing agricultural and livestock production work. We should continuously and positively develop state farms and livestock farms. We should mobilize all professions and trades to support agriculture and animal husbandry, foster the concept that "only when agriculture is well developed will the region make progress" and the concept that "the region make progress along with the development of agricultural production," and offer various services to agricultural and livestock production.

In agricultural development, we should continue to prominently grasp grain production, implement the principle of giving simultaneous attention to transformation and development, irrigated farming and dryland farming, and guarantee stable increase in our region's grain production by mainly relying on raising the per-unit area yield. It is necessary to further readjust the internal structures of agriculture and animal husbandry, and do a good job in grasping the diversified economy. In the production of animal husbandry, we should continue to grasp the building of grassland and grazing

ground, and fodder grass and animal feed bases, pay attention to raising the quality of livestock, enhance the animal husbandry efficiency, and guarantee a stable development in the production of animal husbandry. We should make unremitting efforts to protect and build the ecological environment and should consider it as a strategic task for bringing benefits to the later generations. We should actively plant trees and grass, realistically prevent the grassland and cultivated land from becoming sandy and deteriorative, guard against water and soil erosion, unceasingly optimize the ecological environment and fundamentally improve the agricultural and animal husbandry conditions.

Second, we should lay a good scientific, technological and educational foundation for economic development. In the next 10 years, we should firmly foster the strategic ideology of "developing the region through science and education," and grasp the development of educational, scientific and technological undertakings as a fundamental major plan for invigorating the economy. It is necessary to make continued efforts to implement the educational principle of the party and the state and uphold the socialist educational orientation. All sorts of schools at all levels should realistically strengthen ideological and political work and comprehensively raise the ideological, political and professional levels of the educators and those who are educated. We should promote the development of educational reform in quality and range, continue to strengthen elementary education, and grasp the implementation of the 9-year compulsory education (or junior-high school stage) in various localities by stages and in a step-by-step manner. Continued efforts should be made to grasp education for minority people, actively develop all forms of vocational and technical education, vigorously run adult education, and shift the work emphasis to training more practical personnel of junior middle school level. We must make all levels and all sorts of education in our region further meet the needs of economic and social development and must achieve a stable and coordinated development in this regard.

In the development of science and technology, we should continue to implement the principle that "economic construction must rely on science and technology and scientific and technological work must serve economic construction," give prominence to science and technology, and consider them as tremendous productive forces for becoming better-off. We should mobilize and organize the broad masses of scientific and technical personnel to go deeply to the forefront of production, and consider economic construction as a main battlefield, and the rendering of service as a major task. We should end the situation in which there are "many scientific and technical personnel at the higher level and too few scientific and technical forces at the grass roots," and seek further development in the course of rendering service. Various departments in charge of national economic work should further enhance their initiative in relying on scientific and technological progress and their

sense of urgency, and adopt effective measures and more advanced and applicable technologies to transform the traditional industries, develop the burgeoning industries and comprehensively raise the quality of the national economy. We should also try by all possible means to save energy, raw materials and water resources, continue to strengthen geological prospecting work and serve our region's development and construction.

In a final analysis, education, science and technology constitute an issue concerning trained personnel. We should further form a social habit of respecting knowledge and trained personnel, and create better conditions for the growth of trained personnel and for displaying their ability. It is necessary to establish and perfect the systems for training, educating, managing and rationally using all sorts of trained personnel and gradually form a social environment of putting all trained personnel to best use.

Third, we should further strengthen the building of basic industries and infrastructure facilities. In the next 10 years, particularly during the Eighth Five-Year Plan period, we should continue to strengthen the building of basic industries and infrastructure facilities, including energy, raw materials, communications, and telecommunications, attach prime importance to this work, grasp the favorable opportunity that the state has given special emphasis to this sector, push our region's basic industries and infrastructure facilities forward, and lay a solid foundation for facilitating an economic take-off in the next century. Fourth, a good job should be done in grasping the economy at the banner-county level, which is the foundation of making the region's economy flourish. We should adopt feasible measures to accelerate the pace in developing the economy at the banner-county level. We should regard as the focal points of developing the economy at the banner-county level the work of enhancing the capital construction of agriculture and animal husbandry, developing a diversified economy in line with the local conditions, increasing the production of farm commodities and animal by-products, unclogging the circulation channels of commodities, vigorously developing town-run enterprises, and of upgrading in a stable manner the living standard of peasants and herdsmen and the self-sufficient rate of finance. Under the guidance of the state policies on industries and the autonomous region's policies on macroeconomic readjustment and control, attention should be paid to scoring standardized results from the economy, vigorously developing lateral economic associations, and promoting the development of industries at the banner-county level. We should make full use of the influence exerted by the products turned out by the large and medium-sized enterprises and by the technologies adopted by them to promote the associated production in specialized fields. Efforts should be made to actively open or develop production fields or products which can render services for agricultural and animal husbandry production and for the livelihood of peasants and herdsmen. The autonomous region and various leagues and cities in

the region should actively support the economic development at the banner-county level in the fields of manpower, funds, and material supply and accelerate the pace in making the region flourish and the people wealthy.

4. We should grasp readjustment to promote the sustained, stable, and harmonious development of the national economy in the region.

A good job should be done in emphatically grasping the readjustment in the following four aspects: First, we should readjust the industrial structure. In line with the situation as a whole and the orientation of enhancing the primary industry, optimizing the secondary industry, and accelerating the development of the tertiary industry, we will do a good job in gradually readjusting proportional relationship among various industries. According to the state policies on industries and the region's actual situation, we should continuously enhance the basic industries of agriculture, energy resources, and raw materials; and actively develop some industries with a strong point, mainly including the enterprises of light and textile industries with their raw materials of farm and animal husbandry products and the enterprises of forest industry, food, and of medical and its medicine. We should also vigorously develop newly risen industries which have broad prospects and emphatically build the enterprises of petrochemical industry, motor vehicle manufacture, rare earth materials, and of electronics. Second, we should readjust the products mix. Efforts should be made to uphold the principle of carrying out readjustment to suit the situation and to achieve development simultaneously; and to emphatically develop products with high added-value and of precision work, products in short supply needed by markets, famous-trade-mark and fine-quality products, special local products, and new products turned out for opening markets. We should not only have our products meet the needs of markets in rural and pastoral areas but also have them meet the needs of outside and foreign markets; and gradually upgrade the quality, grade, and competition capability of the region's products. Third, we should readjust the organizational structure of enterprises; put our work emphasis on developing enterprise groups, promote the reasonable circulation, optimization, and organization of major means of production; develop enterprise groups with the key industries and products as their development orientation; and should foster new and more rational economic organization and production standardization. Based on consolidating, developing, and improving the existing enterprise groups, the autonomous region should adopt the measures of conducting guidance while enforcing the policies and carrying out coordination organizationally so as to establish some larger enterprise groups. Fourth, we should readjust the economic structure in rural and pastoral areas. Vigorously developing town-run enterprises not only represents an important course of making the people, counties and banners, leagues and cities, and the autonomous region wealthy; but also represents a

strategic measure of readjusting the economic structure in rural and pastoral areas. We should put the work of developing town-run enterprises on an important position, enhance our leadership over the work, formulate overall plans, adopt various measures, mobilize the forces of various social circles, and should actively support the broad masses of peasants and herdsmen to operate the enterprises of various categories at the town-township level. In line with the principle of suiting local conditions, making rational arrangements, stressing economic results, and making breakthroughs in key projects, we should have various localities formulate their own development targets and plans and support the development by adequately amassing funds, manpower, and materials or by enforcing preferential policies. We should adopt multiple forms, such as integration between urban and rural areas, the import of outside funds and technology, the establishment of lateral associations, and comprehensive development, to promote the faster development of town-run enterprises.

In conducting adjustments, we should proceed from the need for raising economic efficiency and regard it as the final aim. We should have a strong sense of efficiency and embrace the concept of input and output. Enterprises should attach importance to the marketing of their products, effect a change from conducting production and management merely to conducting production, management and business and pay attention to arranging and organizing production according to market guidance and consumer needs. We should strengthen the management within enterprises, establish strict basic management systems, such as quality control and cost control, improve the quality of enterprises and achieve high efficiency through strengthened management. We should bring our major economic efficiency norms to the middle level of the country or above by the end of this century.

5. We should pay attention to building the spiritual civilization to provide a better environment for economic and social development.

Building a high degree of spiritual civilization is an important goal of building socialism with Chinese characteristics and also an important guarantee for promoting the material civilization. To achieve the great goals of reform, opening up and economic construction for the 1990's, we should continue to adhere to the principle of "attending to two fields of work simultaneously," greatly strengthen ideological and political work while successfully carrying out economic construction and make sure that not one of the "two civilizations" is neglected. We should make unremitting efforts to conduct the education in the four cardinal principles, resist and oppose bourgeois liberalization and ensure the correct orientation for economic construction, reform and opening up. We should establish in entire society the theoretical guidance, public opinion, concept on right and wrong and mental attitude that are conducive to the modernization drive, reform and opening up in order to further arouse the tremendous enthusiasm and creative

spirit of the people of various nationalities throughout the region for building socialism with Chinese characteristics.

We should always give prominence to the endeavor to consolidate and develop national unity and, through in-depth and persistent education in the Marxist theory on nationalities, in the policies on nationalities and in national unity, enable cadres and the masses of various nationalities to firmly embrace the Marxist concept on nationalities and to cherish very much and voluntarily defend the great unity of various nationalities. We should conscientiously implement the policies on nationalities and the law on regional national autonomy. We should make great efforts to develop the economy and culture of minority nationalities, gradually narrow the gap between the various localities of the autonomous region and earnestly help economically backward localities, especially poverty-stricken areas where minority nationalities live in compact communities, eliminate poverty and achieve prosperity as soon as possible. We should actively train and promote cadres of minority nationalities who have both political integrity and ability, further strengthen the unity among the cadres of various nationalities and further consolidate and develop the socialist new type of relations among nationalities which are characterized by equality, mutual aid, unity, cooperation and common prosperity. We should further implement the party's religious policy and respect the freedom of religious belief.

We should continue to regard political and social stability as a basic and important task. We should continuously raise the people's awareness in adhering to the four cardinal principles and opposing subversion, infiltration and peaceful evolution through the education in the current situation and in patriotism, collectivism, socialism and national defense. We should further strengthen socialist democracy and legal system and achieve success in the second five-year education to popularize laws in order to continuously enhance cadre and people's sense of respect for the legal system. We should strengthen national defense and the building of reserve forces and protect military facilities. We should intensify efforts to improve the contingent of public security and judicial workers and consolidate and strengthen the people's democratic dictatorship. We should establish and improve step by step the various systems for democratic management, enhance citizens' sense and ability of participating in and discussing state and government affairs and encourage all the people to plunge themselves into the modernization drive as masters of the state. We should continue the comprehensive measures to tackle public security problems in order to provide a good social environment for the smooth progress of reform, opening up and economic construction. We should continue to make great efforts to develop culture, public health, sports, press, publication, radio, television and film, Mongolian spoken and written language, civil affairs, environmental protection, social security, social welfare and other undertakings,

facilitate the continuous progress of society and promote the greater prosperity of entire society.

### III. Several Tasks To Be Emphasized in 1991

The year 1991 is the first year for implementing the Eighth Five-Year Plan and attaining the second-step strategic objective. It is of far-reaching and important significance to achieve a good beginning.

Major tasks for 1991 are a 3 to 4 percent increase in GNP, which should reach 17.4 billion to 17.6 billion yuan (in terms of the 1980 constant prices, the same below); a 4 to 5 percent increase in industrial and agricultural output value, which should reach 25.1 billion to 25.4 billion yuan, of which agricultural output value should be 8 billion yuan and industrial output value 17.1 billion to 17.4 billion yuan, an increase of 6 to 8 percent; a more than 3 percent increase in the revenue, which should reach 3.4 billion yuan; an 8.3 percent increase in commodity retail sales, which should reach 15.8 billion yuan; and a less than 6 percent increase in price rise.

To fulfill the aforementioned tasks, the autonomous regional government should emphasize the following work.

#### A. It should quicken the pace in reform and opening up.

In the in-depth reform in rural and pastoral areas, we should emphasize the establishment and improvement of the service system before, during and after production and the establishment of service stations in townships and sumu. In the reform of industrial enterprises, we should pay attention to the fulfillment of the second-round contracts. We should work out and put into effect some practical and feasible policy regulations for invigorating enterprises, especially large and medium-sized state ones. We should adjust the organizational structure of enterprises in an active and prudent manner and organize in a planned manner several fairly large enterprise groups this year. We should accelerate reform of the housing system and achieve new progress in commercializing urban houses step by step. We should pay attention to the "marketing, leasing, construction and management" of houses simultaneously and build houses for urban staff members and workers more quickly through the funds raised by individuals and collectives and state assistance and by adopting numerous measures. After summarizing experiences, we should gradually expand the work to sell old houses in cities.

In opening to the outside world, we should actively develop the economic and technological cooperation with foreign countries while expanding foreign trade and making the existing joint ventures successful. All localities and departments should select projects well to attract more foreign businessmen and should develop some new enterprises in the "three forms of foreign-invested enterprises" which are encouraged by the state and urgently

needed by the autonomous region in its economic development. We should further expand lateral economic cooperation at home and greatly strengthen the economic cooperation and exchanges with coastal areas and neighboring provinces and regions. To enliven the economy and facilitate opening to the outside world, the autonomous region decided to hold a regionwide Nadam Fair in August to which businessmen from Hong Kong, Macao and foreign countries, representatives from other provinces, municipalities and regions and personages from industrial and commercial circles will be invited. Through literary and art performances, sports contests and grassland tours that have the characteristics of our nationalities and, in particular, economic and trade fairs, the Nadam Fair will publicize our region's policies for opening in all directions, its natural resources and its advantages and potential in economic development so as to increase our region's exposure. Talks on economic, trade and technological cooperation between the region and domestic and foreign counterparts will also be held during the Nadam Fair so that we can make friends extensively and expand the field of cooperation to serve the economic development of our region. We should turn the Nadam Fair into a grand fair with regional characteristics for economic and cultural exchanges and for wider-range foreign trade so as to lay a good foundation for such activities to be carried out in the future.

B. We should stabilize the production of agriculture and animal husbandry.

The region's major task of agricultural production this year is to ensure the stable development of grain production and to achieve the total grains output from 8 to 8.5 billion kg. Based on combating disasters to reap a bumper harvest, continuous efforts should be made to enhance the basic construction. The region's investment in agricultural capital construction this year is 52 million yuan, a 3.5 percent increase over the arrangement made in early 1990. In line with their financial conditions, various leagues, cities, banners, and counties should increase their investment in agriculture and animal husbandry as much as possible. Meanwhile, efforts should be made to bring into full play the enthusiasm of peasants and herdsmen in increasing the input of funds and labor service for production. Rural and pastoral areas should whip up a new upsurge this year in their farmland and grassland capital construction with the central task of building water conservancy works and score greater results. They should show a 100,000 hectare increase in the acreage of new well-irrigated farmland, fulfill the task of completing the water and soil conservation of 333,000 hectare of farmland, and show a 9,000 increase in the number of new man-made pastures with the water sources as their center. Meanwhile, a good job should be further done in grasping the development and renovation projects of agriculture, building the bases of marketable grains, formulating rational plans, carefully organizing the projects, and in striving to score greater practical effects. While ensuring the stable increase of grains output, we should actively develop a

diversified economy and particularly and vigorously develop town-run enterprises. Efforts should be made to make rational arrangements for the sowed acreage of farmland of oil-bearing seeds and beet crops. Localities which have conditions should pay attention to the work of successfully developing the new production of cotton, tobacco, and fruit.

The general demand for the animal husbandry production this year is to stabilize the quota, to stress the quality, and to increase economic results. A good job should be done in vigorously grasping the improvement work of animals this year, accelerating the turnover of herding animals, and vigorously increasing the economic results of animal husbandry and the incomes of herdsmen. We should make full use of the favorable condition of extremely bumper grain harvest reaped in 1990 to actively and successfully conduct the work of processing grains so as to enable the region to achieve new development in raising hogs and poultry.

We should continuously carry out the mass campaign of greening the autonomous region, vigorously plant trees and grass, and fulfill the 1991 project of building the "three north" shelter belt. Efforts should be made to enhance the work of fire prevention and management over forests and grassland. A good job should be further done in operating forest industrial enterprises, actively developing a diversified economy and comprehensive utilization, and in upgrading the level and economic results of the region's forestry production.

To ensure the stable development of agricultural production this year, governments at all levels should continuously enhance their leadership over agriculture and various industries and trades should render fine-quality services in various fields for agriculture in line with their work reality. Departments concerned should earnestly summarize their experience gained in 1990 in the production and supply of the means of production, such as fertilizer, agrochemicals, plastic sheet, diesel, gasoline, and farm machines, and particularly in purchasing the farm products and animal by-products. They should formulate the measures of improvement and improve their service work to a new level.

C. We should launch in a down-to-earth manner the "yearly campaign" of improving the quality and increasing the variety of products and economic results.

In conducting the campaign, first of all we should enhance the sense of the people on quality and implement in a down-to-earth manner the principle of regarding quality as the first importance. Various enterprises should establish the inspection and managerial systems of quality, enhance the technological management, strictly enforce the technological discipline, adopt the method of linking up the quality with the reward of every producer and manager, and should realistically do a good job in conducting the basic work of upgrading the quality. We should formulate specific plans and targets for upgrading the quality of the region's key products



and earnestly organize all forces to implement the plans and targets by regarding them as an important content of the macroeconomic supervision and control. We should conduct inspection and appraisal in an overall way over the quality of products turned out by various enterprises and enforce the system of awarding the outstanding and punishing the backward.

In this year's economic restructuring, we should focus on the adjustment of product mix. Through technical transformation, we should make a fairly great stride in the development of new products and achieve a marked progress in satisfying market demands and increasing varieties. To change as soon as possible the region's situation in which the production of raw materials, primary products and products of low additional value occupies a great proportion, the autonomous government put forward a preliminary plan for adjusting product mix by developing new and high-quality products, increasing undersupplied products, developing intensively processed products, expanding the production of minor commodities for daily use and limiting the production of stockpiled goods. We should conscientiously organize forces to implement this plan. We should actively develop the production of daily consumer goods and products for minority nationalities and, in particular, strive to make a breakthrough in developing the series of products that suit the needs of rural and pastoral areas. We should substantially raise the economic efficiency of our region through the activities for the year of "quality, variety, and efficiency." Industrial enterprises should achieve a net increase of more than 100 million yuan in the profits and taxes turned over to higher authorities and more than 300 million yuan in the output value of fine-quality products, won three state awards and 30 ministerial awards for fine-quality products and reduce both the number of loss-making enterprises and the amount of deficits by 50 percent.

D. We should strengthen key construction projects.

Key construction projects have a bearing on the entire economic development of our region. The Jungar coal, electricity and road construction comprehensive project, the Hohhot Oil Refinery, the Jining-Tongliao Railway, the Neimenggu Large Chemical Fertilizer Plant and many other key projects have been started this year. All pertinent units should make concerted efforts to ensure the smooth progress of the construction in line with the requirement for "high quality, high speed, high efficiency, and high spirit in construction." All pertinent departments and localities should give the "green light" to the construction of key projects and encourage the masses to support it.

E. We should conscientiously make financial and banking work successful.

We should continue the "double increase, double economy" campaign to increase revenues and effectively control expenditures. This year, financial departments at

all levels should particularly do a good job in opening up and cultivating financial resources, helping enterprises raise efficiency and developing the economy of banners and counties so as to enhance their capacity for financial self-reliance. After conducting investigations and study, the autonomous region should hold a conference on the development of banner and county economy this year to further improve measures and enable a number of banners and counties to achieve financial self-reliance at an early date. In expenditures, we should continue to adhere to the principle of strict control, centralized management and guarantees for key projects and should further strengthen supervision and control over extra-budgetary funds to keep expenditures within the planned quotas. We should continue to strengthen the collection and management of taxes according to law to gradually systematize and legalize financial and taxation work. We should strengthen and improve auditing work, improve the auditing system and strictly enforce financial and economic discipline.

Monetary departments should fully perform their function of macroregulation and control, continue the credit policy of "controlling total demand and supply, adjusting the structure, strengthening management, conducting timely adjustments and raising efficiency," fulfill their tasks for tapping potential and improve the flow of new loans. They should absorb more savings deposits, adopt every means to organize social funds, continue to clean up "debt chains," make flexible use of the funds available to increase their capacity for fund supply and efficiency in the use of funds and strive to provide more funds for the region to develop its economy and enliven its urban and rural markets.

F. We should actively open more markets and enliven the commodity circulation channels.

We should realize an adequate increase in industrial production this year, increase the economic results, and should rely to a great extent on the further expansion of markets. We should also enhance our sense of markets and commodities, go all out to organize the strong contingent of sale personnel, take active measures to occupy the markets, and establish stable sales channels for our products. Efforts should be made to develop markets in rural and pastoral areas, to vigorously open markets in places outside our province or in foreign countries, to continuously adopt various measures for successfully selling industrial products in rural and pastoral areas, and to further develop the commodity supply networks and centers in rural and pastoral areas and trade fairs in both urban and rural areas. In line with the relevant regulations issued by the State Council and the autonomous regional people's government with regard to enhancing the commodity sales and invigorating the markets, we should vigorously handle the long-overstocked daily consumer goods and the large amount of products in excessive supply. Meanwhile, departments in charge of the economic work and various enterprises should take unifying steps among production, commodity circulation, and consumption; and



should strive to fix the production quota in line with sales so as to prevent the new overstocking of products.

We should further deepen the reform drive in the systems of commodity circulation. The state-run commercial firms, supply and marketing cooperatives, and the material supply departments should enhance their internal management; reduce the intermediate links; develop various trading styles; and bring into full play their main-channel role in readjusting the markets through purchase and sales, stabilizing the markets, and controlling the prices. We should continuously support the development of commercial firms run by collectives and individuals and reinforce the channels of commodity circulation. Efforts should be made to vigorously conduct joint sales between industry and commerce, industry and material supply, industry and trade, as well as between commerce and commerce; to actively develop direct deal between agriculture and industry and between animal husbandry and industry; and to bring into play the enthusiasm of various circles in enlivening the socialist commodity circulation. The supply and marketing cooperatives at the grassroots level should vigorously popularize the experience gained by the units, including the Qianzhaomiao supply and marketing cooperative in Linhe city; foster the "three basic viewpoints" of production, masses, and service; rely on and cater to peasants and herdsmen; base themselves upon services; and achieve development while rendering services.

The departments in charge of commodity prices should continuously implement the "guiding ideology" of either stabilizing the commodity prices or making the economy flourish and push forward the price reform actively, carefully, adequately, and in a timely manner in line with the "principle" of bringing the price level under control, readjusting the price structure, enhancing price management, deepening the reform drive in commodity prices, and promoting a flourishing economy, as well as on the premise of controlling the scale of price hikes within the provisions of the plan. Governments and responsible departments at all levels should adopt more powerful measures to realistically conduct the work of successfully combating the "three wanton collections." Efforts should be made to resolutely correct and abolish all irrational and illegal charges, fines, collected-funds, and expenses; and to score marked achievements in this regard this year.

G. We should continuously enhance the building of the socialist spiritual civilization.

We should integrate the construction of education, science, and culture closely with that of the economy and have both of them mutually promote and push forward the development in building the "two civilizations." The departments in charge of educational undertakings should take a new step in deepening the reform drive, emphatically readjust or optimize the educational structure, and actively launch the "yearly campaign" of

successfully developing vocational and technical education so as to enable the education to further meet the needs of the region's economic construction. Units in charge of scientific and technological work should continuously, emphatically, and successfully conduct the work of spreading and popularizing the suitable technologies; and carry out through various forms the activities of having science and technology make industry, agriculture, and animal husbandry flourish, as well as make the operation of engaging in various undertakings prosperous. Meanwhile, in line with the region's key construction projects and the work of readjusting the industrial and product structures and developing grain production and town-run enterprises, they should define the key projects of overcoming the technological difficulties and organize or coordinate all scientific and technological forces so as to enable them to strive to score a number of scientific and technological results which can exert quicker effects. Social sciences should persistently serve our region's economic construction, reform, and opening up and fully develop their role in giving theoretical guidance to the endeavors to publicize Marxism-Leninism and resolve major issues concerning economic and social development. We should continue to implement the basic national policy of family planning and attend to family planning as we do economic construction. We should have the greatest determination and adopt effective measures to keep our region's natural population growth within the planned 14.1 per thousand. We should intensify the education on population, enhance our sense of per-capita output of products and sense of improving and continuously raise the quality of the population. We should adhere to the orientation of "serving the people and serving socialism" in developing cultural undertakings, strive to make the creation of literature and art flourish and actively develop the cultural activities of enterprises, rural areas, pastoral areas, barracks and other mass cultural activities. In public health, we should focus on the public health, medical care, and traditional Chinese and Mongolian medical work in rural and pastoral areas, gradually establish the three-level health networks in rural and pastoral areas, resolve the shortage of doctors and medicines, persistently continue the patriotic public health campaign and continue to control, prevent, and treat endemic diseases and major contagious diseases. We should attach more importance to and develop sports, press, publication, radio, television and film, social security, and other undertakings. This year, we should continue to regard the endeavor of helping poverty-stricken areas eliminate poverty and achieve prosperity and the endeavor of arranging jobs for urban jobless people as practical jobs in benefit of the masses and successfully carry them out. The entire society should attach importance to and support the welfare work in the service of handicapped people.

We should continue to put the spiritual civilization in the position as important as economic construction. This year, we should conduct in-depth socialist ideological

education throughout the region, greatly publicize Marxism-Leninism-Mao Zedong Thought, the party's basic line and the deeds of heroic and model persons, launch the activities for people to learn from Lei Feng in their work posts and establish new styles in their trades, educate all the people to become better educated and self-disciplined socialist people with lofty ideals and moral characters and further improve their ideological, moral, scientific, and cultural qualities. We should further strengthen the unity among nationalities, the army-government and army-civilian unity and the unity of other fields, actively carry out the "double support" activities and create regionwide a more harmonious social environment. We should mobilize and organize forces from all quarters of society and adopt political, economic, administrative, legal, cultural and educational means to intensify the comprehensive improvement of public security, continue to "deal strict blows" and "eliminate six vices" according to law and achieve notable results particularly in banning drug abuse. We should further defend the normal order of society and consolidate and develop the stable and united political situation.

H. We should make conscientious efforts to improve the work styles of the government.

Faced with the grand strategic objective for the 1990's, governments at all levels must further change their work styles and improve their work if they are to successfully fulfill the heavy and arduous tasks for the 1991. This year, we should work out measures and exert arduous efforts to effect a marked change in the work styles of the government.

First, we should conduct in-depth education in the party's glorious traditions among government functionaries at all levels and further carry forward the proletarian revolutionary spirit. 1) Efforts should be made to conduct education in the purpose of serving the people wholeheartedly and to carry forward the courageous spirit in devotion. Because governments at all levels are governments in the service of the people and their functionaries are "public servants" of the people, we should establish in all government departments a good practice of stressing unity and compete with each other to make contributions, stressing diligence and competing with each other to make more effort in their work and stressing progress and competing with each other for greater achievements. We should continue to intensify efforts to remain honest in administration. Government departments and leading cadres at all levels should start with themselves and wage resolute and unremitting struggles against all corrupt phenomena. We should continuously do a good job in correcting the malpractices cropping up in various industries and trades and earnestly investigate and handle major and appalling cases. 2) Efforts should be made to conduct the mass-line education on believing and relying on the masses and on getting the opinions of the masses and referring them

back to the masses and to carry forward the revolutionary spirit of waging arduous struggle. The government should work in various fields for the people, rely on the people, listen to the opinions and voices raised by the vast number of people, and rely on the wisdom and strength of the masses to deal with the practical problems cropping up in economic construction. We should carry forward the spirit of advancing despite difficulties, fearing no hardship, and of boldly working with all our might; and resolutely overcome the evil practice of attempting nothing and accomplishing nothing as well as of seeking ease and comfort. 3) Efforts should be made to conduct education on the party's ideological line of seeking truth from facts and to carry forward the spirit of seeking truth and of dealing with concrete matters relating to work. In conducting various work, we should not only have lofty aspirations and great ideals but also squarely face the difficulties, have our feet planted on solid ground, and proceed from the reality. We should resolutely oppose and overcome the malpractices of being divorced from reality, conducting work superficially, and of indulging in empty talk so as to enable governments at all levels to foster the good morale of seeking truth and dealing with concrete matters relating to work.

Second, in conducting reform in governmental work, we should make new progress in the following three aspects: 1) Efforts should be made to realize the practice of making policy decisions in a democratic and scientific way. This is a basic demand and condition for upgrading the level of leadership and ensuring the correctness of policy decisions during the new historic period. Governments at all levels should establish the procedure of making policy decisions in a scientific way. In making policy decisions involving the important issues of economic and social development, it is imperative to deeply carry out investigation and study, to extensively solicit the opinions of various social circles, to conduct scientific appraisal repeatedly, and to vigorously overcome the arbitrary and blind way of making policy decisions. Governments at all levels should carry out their administrative work in line with the law and consciously receive the supervision conducted by the People's Congress at the same level. Efforts should be made to bring into full play the role of the departments of science and technology, investigation and study, consultation, and comprehensive coordination, as the "think tank," advisers, and assistants of the government so as to reduce or avoid the faults committed in making policy decisions. 2) Efforts should be made to steadily enhance the service function of governments and departments at all levels. The broad masses of governmental work personnel should further foster the strong sense of service, regard service as their own fundamental duties, formulate clear targets and measures of service in line with their reality, and should steadily strengthen their self-construction while enhancing their services. We should take the results scored by the government and department in rendering services as an important content of measuring their administrative achievements. 3) A good job should be done in realistically conducting the

work of implementing various tasks. The leading comrades of governments at all levels should further carry forward the down-to-earth work style and concentrate their efforts on vigorously implementing the work style. Governments at all levels should let the practice of organizing cadres to go deep into grassroots levels become a system, vigorously boost the style of carrying out investigation and study, be determined to reduce meetings and to simplify documents, and should overcome the formality and routine. In grasping implementation, attention should be paid to grasping the key and difficult points and weak links of work; to enhancing the supervision and inspection; and to achieving in making arrangements, conducting examination, carrying out summarization, and making improvement so as to enable the arrangements made by the government to be implemented in a down-to-earth manner. We should also pay attention to enhancing the building of organizations of political power at the grassroots level so as to bring into full play their leading organizational role on the forefront.

Fellow deputies!

We have won a first-step victory in our journey of building modernizations. In reviewing the past, the people of various nationalities throughout the region feel very happy; in looking forward to the future, they are full of hope and confidence. Under the guidance of the spirit of the Seventh Plenary Session of the 13th CPC Central Committee, let's more closely unite; emancipate our minds; heighten our spirit; rouse ourselves for vigorous efforts to make the region prosperous; pioneer the road of creating something new; enable the region's program of conducting reform and opening to the outside world to make new progress; score still greater achievements in economic construction and various social undertakings; and advance with giant strides along the road of making the region flourish, making the people wealthy, and seeking better-off living standards.

### **1 Billion Yuan Invested To Aid Xinjiang's Poor Areas**

*OW1506010891 Beijing XINHUA in English  
0054 GMT 15 Jun 91*

[Text] Urumqi, June 15 (XINHUA)—China invested one billion yuan (nearly 200 million U.S. Dollars) in past five years to aid poor areas in the Xinjiang Uygur Autonomous Region in northwest China.

A total of 42 projects were addressed under the central government's program, which is designed to help the region expand its economy and improve the living conditions in the poor areas.

The region, which comprises close to one-sixth of the total area of China, has a population of 9.6 million people belonging to 12 ethnic minority groups.

Statistics show that more than 300,000 households in the rural and pastoral areas, mostly located in the harsh

desert and semi-desert terrain, lived below the poverty line at the end of the Seventh Five-Year Plan period (1986-90).

In addition, half of the county governments in the region needed state aid to balance their budgets, regional officials disclosed.

The central government's projects cover energy, transportation, chemicals, textiles and breweries. At present, 28 projects have gone into operation, the officials said.

One of the operational projects, the 700 million yuan Zepu petrochemical plant, can produce 110,000 tons of chemical fertilizer, 120,000 tons of fuel and 10,000 tons of liquid gas annually.

The plant will save the central government 12 million yuan each year on the cost of transporting fertilizers to the region from other parts of the country, the officials explained.

The plant is located in Zepu County, Kashi Prefecture, southern Xinjiang, where 16 of the 24 total poor counties are concentrated, the regional officials said.

Many of the projects have brought direct economic benefits to people in their surrounding areas, the officials said. For example, sugar-beet farmers who live near a sugar refinery in Fuhai county, Altay prefecture, earned more than six million yuan (more than one million U.S. Dollars) last year, providing each person with an additional 300 yuan in income, the officials noted.

### **Shanghai Official on Direct Foreign Investment**

*OW2206132591 Beijing XINHUA in English  
1145 GMT 22 Jun 91*

[Text] Shanghai, June 22 (XINHUA)—By the end of last month Shanghai had approved 1,056 direct foreign investment projects, involving a total of 3.097 billion U.S. dollars of agreed foreign investment.

Direct foreign investment is playing a more and more important role in the city's economy, according to an official from the Shanghai Foreign Investment Commission.

For example, of the 5.5 percent economic growth in the city last year, 3.5 percent was attributable to foreign-funded enterprises.

The official cited three characteristics of foreign investment in Shanghai:

First, the investment directions are in accordance with the city's industrial restructuring. They have helped to update and upgrade the product mix of the city.

The Sino-German Shanghai Volkswagen Corporation, for example, has updated Shanghai's automobile production technology by 20 to 30 years.

The production technology and product quality of the building materials, metallurgical, telecommunications and integrated circuit industries have also been greatly improved with the help of foreign-funded enterprises.

Another characteristic of foreign investment in the city is the rapid growth of solely foreign-funded projects.

## FINANCE, BANKING

### Fund Sharing Between Local, Central Governments

HK2406033991 Beijing JINGJI GUANLI in Chinese  
No 5, 5 May 91 pp 17-21

[Article by Huang Ming (7806 2494), edited by Dong Zetian (0157 3419 3944): "Quantitative Analysis of Financial Distribution Between Central, Local Governments"]

[Text] The distribution relations between the central government and the local governments have long been one of the topics of study and research by theoretical circles and actual workers. This article will, through a quantitative analysis of the financial distribution between the central and local governments, discuss the choices that should be made in handling the financial distribution relations between the central and local governments from now on.

#### First analysis: Financial centralization by the central government has not been reduced.

From 1979 to 1989 the proportion occupied by the central government's financial receipts in the national financial receipts has increased yearly, from 14.3 percent in 1979 to 39.4 percent in 1989, an increase of 25.1 percent. In 1989, the central-grade financial receipts, plus deliveries from local finance according to the structure, occupied a ratio of 55.6 percent of the total national financial receipts, thus exceeding 50 percent. This obvious was not too small a centralization. In the majority of recent years, the growth in the central government's financial receipts has been faster than that of local government receipts. In 1989, compared with 1979, the growth of local government financial receipts was 100 percent but the growth in the central government's financial receipts was 620 percent; from 1979 to 1989, central government financial receipts averaged an annual progressive growth rate of 21.9 percent which was faster than the growth rate of 7.2 percent of local finance. Obviously, centralization of the power of central finance has not diminished.

In reality, since the enforcement in 1980 of the practice of "eating from separate kitchens," the central government has continuously carried out measures of centralizing its financial power at the expense of the local governments. For example: (1) Measures such as raising the bank loan interest rates, increasing the charges of railways and civil aviation, and so forth, have all caused

the transfer of local financial receipts; that is, increasing the production cost (or expenses) of the local enterprises, reducing the local financial receipts for delivery to the central government, and at the same time transferring them to the central government's subordinate enterprises (currency, insurance, railways, airlines and so forth) and increasing the central government's financial receipts. (2) The central government has drawn and absorbed from the localities enterprises or industries and trades which have been run in good condition and profitably but given to the localities enterprises or industries or trades which are losing propositions, such as taking up or absorbing the tobacco enterprises but delegating to the localities enterprises suffering losses in foreign trade. (3) Of the measures newly implemented for the purpose of increasing receipts the great majority have been earmarked as the central government's financial receipts. These include the issuance and floating of state treasury notes and bonds, all the receipts of which are earmarked as the central government's financial receipts; 70 percent of the levies on local enterprises, business administrative units, and funds outside the state budget for the state's energy and communications major construction funds as well as 50 percent of the levies for state budget regulatory funds belong to central finance; a large proportion of the receipts from price increases on tobacco and wines of well-known brands also belong to central finance; and 30 percent of the tax on use of cultivated land as well as 50 percent of the tax on use of urban land likewise belong to central finance. (4) At the time of the enforcement in 1980 of the system of "eating from separate kitchens," the central government's 1979 expenditure base figure in the localities was cut down by 10 percent and the outlay base figure for local financial contracting was also reduced. In 1981, the central government made loans from the local governments equivalent to 20 percent of local expenditures; this was continued in 1982, and in 1983 the loan amounts were incorporated into the contracting base figure of the localities, thus correspondingly increasing the localities' deliveries to the treasury. Since then, each year the localities have had to bear the loan burden just the same. In 1987, the central government again made loans from local finance while in 1988 the loan amounts were once again incorporated into the base figures of the contracting by the localities; in 1990 the localities again helped to solve the financial difficulties of the central government. Adding together the sums involved in all these measures, the resultant figure will be a considerably large one.

#### Second analysis: In the division and distribution of financial power, the locality is not the benefactor; actually, the departments benefit.

At present, a comparatively large number of people hold the belief that distribution of the financial power has principally benefitted the localities. This is based on the fact that in recent years central finance has successively shown red figures while local finance has shown favorable balances. Thus, from 1979 to 1989, central finance was in the red for 10 years while deficits occurred in local

finance for only four years; in the 10 years' accumulations, the deficits in central finance amounted to 85.7 billion yuan while local finance showed a surplus of 11.7 billion yuan. Regarding this, if our analysis and comparison are based merely on the figures, we may derive the conclusion that local finance has fared fairly well and that the financial strength has principally been dispersed to the localities. However, if only we make a fair analysis of the surplus in local finance, the conclusion may be an opposite one. The surplus in local finance was a cumulative figure. It included the still-outstanding payments of special appropriations made by central finance and also the balances of expenses in contracting by local administrative and business units. In reality, the net surplus really belonging to local finance was very small and possibly a negative one. The surplus in local finance is a total figure summing up the balances of various localities. Averaging it among the various localities, the figure for each one is not large at all; besides, there is an imbalance among the localities. Some localities have a large carried-forward surplus while in other localities there is none at all. At the moment, in the surplus figures of local finance, deficits of many county-level finances are hidden or covered up. Furthermore, if local finance truly has a little net surplus, it is normal and necessary. This is because local finance is unlike central finance. If a financial deficit appears there will be no source for compensation. It will not be possible to make a bank overdraft or to issue bonds. The only way is to maintain the guideline of balanced income and outlay, strive hard to increase revenue and economize in expenses, to attain the objective of having a small surplus. It should be said that for local finance to have a little net surplus is the demand of local financial work and has been the result of the active work of local finance for many years. At the same time, it should be noted that at present the amount of surplus carried forward in local finance has been yearly diminishing and that the 1989 figure, compared with that of 1983, was down by 2.3 billion yuan and by 1 billion yuan compared with 1988.

Concurrently, the distribution of financial power among the departments, in contrast with that in the localities, has been a little more liberal. For example, in 1989 the central government's subsidies to local governments' expenditures amounted to 56.217 billion yuan, of which the amount of various kinds of special appropriations to the localities was no less than 30 billion yuan, equivalent to one-third of the central government's financial expenditures. Of the special appropriations, some were necessary and rational but some could be somewhat reduced. As for funds outside the budget, in 1987 the central government's proportion was larger by 7.1 percent compared with 1982. All this indicated a phenomenon of dispersal of financial power among the departments.

**Third analysis: The central government's financial difficulties were not due to too little centralization of financial power, but rather to the heavy burden.**

From 1979 to 1989, the proportion occupied by the central government's financial expenditures in the total

national financial expenditures dropped by 9.7 percent whereas the proportion occupied by local expenditures increased by 9.7 percent. In recent years, the growth in local governments' financial expenditures has been faster than that of the central government. In 1989, compared with 1979, the increase in local governments' financial expenditures was 210 percent; this was faster than the increase of 100 percent in the central government's financial expenditures. From 1979 to 1989, local governments' financial expenditures averaged a progressive yearly increase of 11.9 percent, which was faster by 5.2 percent in comparison with the average growth rate in the central government's financial expenditures. The increase in the proportion of local expenditures out of the national expenditures and the faster growth rate in local expenditures than the central financial expenditures illustrate from one side that in recent years the pressure force of local financial expenditures has been rather great.

After enforcement of the system of "eating from separate kitchens," the effects of the various measures on reducing levies and increasing expenditures have been borne by local finance. In particular, raising the prices of grain and edible oils and wage reform have greatly increased the expenditures. For example, expenditures on price subsidies have been a heavy burden on the part of local finance. In Hubei Province, in only the years 1986 to 1989, the expenditures on price subsidies increased by nearly 100 percent, averaging a progressive increase rate of 23 percent each year. Indeed, it should be said that in recent years local finance has devoted extremely great efforts in this regard and has shared many of the difficulties facing central finance. Each year, the measures on increase of expenditures have mostly consisted of price subsidies; deficits in many county-level finances have also been caused by the too-heavy burden of price subsidies.

Facts have shown that the size of financial power in hand does not entirely indicate whether or not there will be financial difficulties. Raising the ratio of the central government's financial income in the national financial income naturally does play an active role in solving the central government's financial difficulties. But this is only a necessary condition and not the most important one. After centralization of financial power, if distribution is not well carried out, if management is not strengthened, if financial power is lost or wasted and cannot display the effects that it should produce, then finance will still face difficulties. Solution of financial difficulties must proceed from strengthening the capability in regulating and controlling finance. Putting into full play and strengthening the capability of regulating and controlling finance naturally requires as the basis an adequate degree of financial power. The effects produced by regulation and control should also be closely related to financial power, but financial power is not the sole manifestation of the capability of financial macroeconomic regulation and control. At present, the problem of solving the capability of financial regulation and control

cannot always revolve around the question of how much funds are in hand. If we can break through the understanding of regulation and control taking the amount of funds as the carrying body and strengthen the construction of a system for policy regulation and control in finance, only then will there be the possibility of basically solving the financial difficulties.

Through the above analysis, the write believes that it is necessary to correctly select the road to handling financial distribution relations between the central and local governments.

**Choice number one: raise the "two ratios." First, the ratio of financial revenues in the national income must be raised.**

At present, state finance is in difficulty. For several years in succession central finance has shown a rather large deficit. However, it is now facing the high peak of loan repayment and it is absolutely necessary to raise the ratio occupied by financial revenues in the national income and heighten the proportion occupied by central financial revenues in the national financial income. In raising the two ratios there must be a first and a second. This cannot be carried out at the same time and the end cannot be put ahead of the beginning. It is necessary first of all to raise the ratio of financial revenues in the national income.

Raising the "two ratios" is in reality the problem of smoothing out the distribution relations, readjusting the distribution structure, and re-shaping the distribution pattern. Readjusting distribution is only a problem of "cutting the cake" under the conditions of the fixed gross volume of national income. Any development in production is a problem of "making the cake" in facilitating the increase in the gross volume of national income. What we are facing now is not solving the single-weight contradiction of large financial resources but low "two ratios," but rather solving the double-weight contradiction of small financial resources and the "two ratios" being too low. If production is not developed and economic effects are not raised, then under the conditions of the fixed gross volume of national income, raising the "two ratios" has a fixed limit after all. If unilaterally the "two ratios" are raised, then it would be like "draining out the pond water to catch the fish," and the result will be that finance has tied itself up. Hence, when we readjust the distribution structure and raise the "two ratios," we must, on the basis of developing production, readjust the distribution policy and strive hard to raise the ratio of financial revenues in the national income. On this foundation, if we proceed to readjust the distribution of financial power between the central government and local governments and ensure that the ratio of the central government's financial revenues in the national financial income can be raised, only then will we have the correct selection and natural road to raising the "two ratios."

Both theory and practice have told us: Only by producing wealth can wealth be accumulated and only when wealth has been accumulated can it be put to use. In other words, only through first having financial receipts well organized can we consider the distribution problem. The financial power that can be centralized each year can only be the surplus labor or its products suited to the national power and for ensuring the normal operation of the national machine. Speaking from the sense of the maximum limit, in each financial year the gross volume of surplus products which can be demarcated from the national income is the highest quantitative limit which finance can mobilize as revenue or receipts. Therefore, only through first readjusting the enterprise financial management system and taxation management system in the financial administrative structure and rationally fixing the distribution policy will it be possible to next consider the demarcation of financial power between the central government and the local governments and between the latter at various levels, that is to say, fixing the budget management system. And increase in national power does not come wholly under the restriction or control of the budget management structure. This is to say, reform of the budget management structure is only a necessary condition to increase financial power and is not the condition of first importance.

Actual practice in recent years has fully shown that under the conditions of the ratio occupied by financial revenues being daily gradually on the downturn and finances at various levels all feeling extreme difficulties, the results of first changing the budget management structure can only be the unequal distribution of the fixed volume of financial power among the various levels. Centralization will cause difficulties to the localities whereas dispersing will cause difficulties to central finance. Enhancing the ratio of central finance in the national financial income will tend to correspondingly reduce the strength of local finance. However, the current difficulties encountered by finance are not only manifested in central finance. Local finance has also found the going difficult. Of the 2,300-odd counties in the whole country, over 1,200 are suffering from financial deficits. In the financial expenditures at the provincial level, the various kinds of expenditures that must be ensured such as ordinary expenses, maintenance expenses, and various categories of subsidies occupy around 80 percent of the total outlay. County-level finance is basically finance "to fill stomachs," but in the distressed counties even "having square meals" cannot be ensured and each month the salaries and wages have to be paid in several installments. As for the extrabudgetary funds, the amount in the hands of local finance is definitely not small. But the majority of them have been designated for specific uses such as funds for special projects, and the actual amount that can be centralized is not large at all. Hence, in order that reform of the budget management system is meaningful, and that the reform does bring good results, it is necessary to raise the ratio occupied by financial revenues in the national income, suitably centralize financial power and then in this

financial environment of comparative laxity proceed to consider the marking out of financial power. Only by so doing will it be possible on the one hand to overcome the central government's financial difficulties and on the other hand solve the financial difficulties of the local governments.

**Choice number two: In consideration of the difficulties in local finance, the central government cannot further simply depress and cut down the local governments' financial power.**

With the current condition of finance of local governments at various levels being in a rather poor shape, the method of depressing or cutting down local expenditures has little ground left for maneuvering. For example, in Hubei Province, the ratio of outlay for ordinary business administrative expenses in the local gross expenditures already rose from 67.2 percent in 1986 to 70.2 percent in 1989, an increase of 3 percent and averaging an annual progressive increase of 13.9 percent, faster than the increase in gross expenditures. On the other hand, the ratio of outlay of a production and construction nature was only around 12 percent of the local gross expenditures and further showed a tendency of annually decreasing—in 1989 compared with 1986, there was a drop of nearly 6 percent and in 1989 compared with 1986, the outlay amount was also reduced. The ratio of expenditures for special projects such as urban maintenance expenses occupied 7 percent of the local gross expenditures and that of outlay on price subsidies was around 10 percent. It can be seen from this that in the local financial expenditures, 70 percent consisted of outlays for ordinary business administrative expenses, 10 percent were outlays for price subsidies of a policy nature, and there were also 7 percent of outlays for special projects. In other words, of the local expenditures nearly 90 percent consisted of outlays of a stiff nature while the remaining 10 percent were basically meant for outlays on maintaining simple re-production and the renovation and transformation of enterprises. The actual situation is that expenditures of a local production and construction nature have been steadily diminishing in recent years. For the present, this amount of outlay will be unable to maintain the normal development of the local economy.

Formerly when we carried out the contracting system, the general reflection was "contracting but not doing any work." Seen purely from the handling of the distribution relations of financial power between the central government and local governments, in recent years the measures successively taken in cutting down the contracted base figure of local expenditures, making loans and bearing the burden of the central government's financial difficulties have all taken the road of reducing the localities' financial power and depressing local outlay. Actual practice has increasingly proven that this road can no longer be continued. Seen from the current financial conditions of the central and local governments, the central government can no longer depend on the measure of making loans and reducing local financial power to realize the demands of reform of the financial system, but should

principally centralize a little more than the local governments from the increased volume of income from now on. This is because realizing the centralization of financial power cannot simply depend on raising the ratio of central government's financial intake in the national financial income. In accordance with the demands of structural reform, the de facto interests of local governments at various levels should be ensured as far as possible. If the central government should cut out a slice of income from the localities inevitably it must again increase another subsidy to the localities. This will be meaningless in actual practice.

In carrying out centralization from the increased volume of income the central government should obtain two targets: One is demarcation of the kinds of taxes; this must be beneficial to arousing the localities' enthusiasm in organizing income and thus promote the increase in the gross body of income. By so doing, both the central government and the local governments can derive more financial strength from the increase in the gross income volume. The other target is rationally fixing the distribution ratio between the central and local governments in the increased income volume. Generally speaking, from the increased income volume from now on, central finance should have a larger share.

**Choice number three: Scientifically, rationally, and effectively enforcing division and joint sharing of the taxes and arousing the enthusiasm of both the central and local governments.**

In demarcating the tax categories, we should adopt the method of "depressing the two ends and increasing the middle." That is, in demarcating the tax categories, we should reduce the portion of the financial fixed receipts of the central and local governments and correspondingly increase the portion of the jointly-shared income of central and local finances.

Seen from the current actual conditions, the income tax of state enterprises cannot be taken as the fixed income of central finance because in recent years income tax from state enterprises has not made any increase and the central government cannot get any help in financial strength from the increased amount of receipts, if there is any at all. Moreover, in recent years the conditions have been that the income tax of state enterprises, their regulation tax, their profit deliveries and the planned loss subsidies, if added altogether, have formed a negative amount and there is no sense of the central government taking them to form their fixed income. At the same time, the three large circulating taxes also cannot be taken as the fixed income of central finance, because the products tax, value-increment tax, and business tax which constitute the three large circulating taxes are the "big heads" in industrial and commercial taxes, are the main sources of local financial income, and occupy a pivotal position in the local financial income. If these three large circulating taxes are taken away, it would be tantamount to taking away the motive power of the local governments in developing industrial and commercial



enterprises and would bring ill effects on economic development and on increase in income. Tax categories which can serve as the fixed income in central finance can only be the special regulatory tax categories necessary for the state's macroeconomic management: 1. They are the tax categories over industry and trade directly under the central government's management such as customs duties, business taxes on railroad and civil aviation enterprises, and income tax; 2. They are the regulatory tax categories needed in the state's macroeconomic management such as resources tax, construction tax, awards tax, and so forth.

Tax categories designed to constitute the fixed income of local finance should be those kinds of taxes whose sources are relatively dispersed, the collection stages of which cannot easily be controlled, and which produce no direct effects on the macroeconomy as well as those taxes beneficial to the local governments regulating the economy and developing construction of basic facilities.

Taking the principal tax categories with rather large potentials for increased receipts as income jointly shared by central and local finances will be helpful to arousing the enthusiasm of both the central government local governments. This portion should include products tax, value-increment tax, business tax, and so forth. This portion of income forms around 90 percent of the local financial income.

In respect of the scope of income jointly enjoyed and shared by central and local finances, after its readjustment and enlargement based on the thought line of "depressing both ends and adding to the middle," regardless of whatever divisional ratio between the central and local finances, and contrary to what is prevailing currently, the central government is entitled to increase its retention from the income's increased portion. However, the key to the problem is that the distribution of the jointly-shared income's increment must be beneficial to arousing the two enthusiasms, namely, that of the central government and that of the local governments.

In view of the actual conditions of China's wide territory and the imbalanced development between the different localities, the jointly-enjoyed or shared income should be subjected to different ratios of retention or division in accordance with the localities' different conditions. It is proposed that the various localities in the country should in general be divided into three categories. The directly subordinate cities, coastal provinces, and cities listed in the state plan will form the first category; the five minority nationality regions and provinces treated and managed as minority nationality regions as well as provinces enforcing special policies will form the third category; and the rest will form the second category.

In the first-category area, the ratio of dividing the jointly-shared income should preferably be on the "six-four" basis; that is, the central government takes 60 percent and the local governments 40 percent. We may also split the jointly-shared income into two layers; that

is, regarding the three large circulating taxes of products tax, value-increment tax, and business tax, the ratio should be "seven-three," 70 percent for the central government and 30 percent for the local governments. As for the rest of the jointly-shared income, division is to be on "fifty-fifty" basis, with the central government and the local governments each getting 50 percent.

In the second-category regions, the dividing ratio of the jointly-shared income should preferably be on the "three-seven" basis, that is, 30 percent to the central and 70 percent to the localities. Similarly, the jointly-shared income may be split into two layers, that is, regarding the three large circulating taxes, the "three-seven" ratio should be enforced, with the state getting 30 percent and the localities 70 percent. As for the remaining jointly-shared income, the "two-eight" ratio may apply, with the state getting 20 percent and the localities 80 percent. Under the precondition of enforcing the dividing ratio of "four-six" in the gross jointly-shared income, in the second-category region we can fix different dividing ratios applicable to the tax categories of the jointly-shared income such as a "four-six" dividing ratio applicable to products tax and value-increment tax, with the remaining jointly-share income including the business tax, income tax of state enterprises, and so forth being wholly retained by the localities.

In the third-category region, the dividing ratio of the jointly-shared income should be 100 percent retained by the localities. This is because that even though the whole of this income is retained by the localities it still will not be sufficient to meet the expenditures. If this jointly-shared income is subjected to percentile division, then the central government will be obliged to increase its subsidies to these localities, which is meaningless. If indeed the central government needs these localities to make some fixed contributions, then the dividing ratio of the jointly-shared income may be fixed at "two-eight" or "one-nine." Also, regarding a small number of the principal tax categories a certain dividing ratio may be carried into effect.

Based on this method of tax division, regions receiving subsidies from central finance will in general maintain their present number; that is, the majority of provinces will be able to meet their expenditures with their own retained portion of the income. Due to the different conditions of the various regions, in enforcing different methods of dividing the jointly-shared income the proportion on the average received by the localities will be in the neighborhood of 60 percent of the jointly-shared income. This will not adversely affect the localities' concern with the enterprises, they will be happy to accept the arrangement, and at the same time the financial strength of the central government will be enhanced.

### Shanghai Residents Rush To Buy State Bonds

OW1807085791 Beijing XINHUA in English  
0733 GMT 18 Jul 91

[Text] Shanghai, July 18 (XINHUA)—Thousands of Shanghai residents braved the heat wave to purchase the new state treasury bonds which were issued here on Monday.



The purchasing wave is spurred by a comparatively high interest rate and a short maturation period, according to a local financial official.

"More people have realized that investing in state treasury bonds is reliable and profitable," he said.

The Ministry of Finance first began to issue state treasury bonds in 1981. The first year bonds were set to mature in ten years. They were only issued through work units. These aspects made people think that the state bonds purchasing was compulsory and that the 10 percent interest rates might not cover the inflationary losses in the decade long period. As a result, some people immediately resold the bonds to individuals for less than the face value.

Since 1988, the government has allowed state bonds to be sold in Shanghai, Shenyang, Harbin, Guangzhou, Wuhan, Chongqing and Shenzhen.

Starting at the beginning of this year, state bonds have been underwritten directly by some banks and sold on some securities markets. In addition, the maturation period has been shortened to three years.

Financial officials also attributed the purchasing wave to a growing amount of idle money in the hands of residents after two billion yuan worth of old state bonds were bought back earlier this month.

In addition, the interest rate of the 1991 bonds are about 20 percent higher than that of the fixed deposits.

Officials said that the security bonds were enjoying an increasingly better reputation.

## MINERAL RESOURCES

### Gold Production Continues To Increase

HK1208011891 Beijing CHINA DAILY in English  
12 Aug 91 p 2

[By staff reporter Zhang Yu'an]

[Text] China's gold production continued to rise despite unfavourable factors caused by the recent floods, an official with the State Gold Administration said yesterday.

Last month, the country's gold output registered a 14.5 percent rise over the same period last year and was the highest compared to the increases of 11.3 percent in April, 7.5 percent in May and 2.3 percent in June, the official said.

In the January-July period, the average growth was 9.8 percent, with the country's major gold producing provinces racing ahead of others.

During that period, Henan Province, the second largest gold producer after Shandong Province, saw a 28.2

percent rise from last year—the highest in the country, and had fulfilled 72.6 percent of its annual output target, the official said.

Meanwhile, Shandong and Hebei provinces, the latter being the fourth major gold producer after Heilongjiang, had fulfilled their annual gold production plan by 62 percent and 65.7 percent respectively by the end of July, the official added.

Entering the summer season, heavy rains and floods hit the country's gold producing provinces of Anhui, Hubei, Heilongjiang, Guizhou, Hunan, Jilin, Yunnan, Hebei and the Inner Mongolia Autonomous Region, affecting gold production.

But due to government assistance and efforts by gold producers, all the flood-hit gold mines have by now resumed production, the official said.

Despite unfavourable factors, the administration will not change its annual gold output target and has called on all the gold producers the country to guarantee fulfillment of this year's plan for gold production growth, the official said.

## INDUSTRY

### Large, Medium State Enterprises Face Difficulties

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No 4, 5 Apr 91, pp 13-18

[Article by Wang Yong (3769 0516), edited by An Luming (1344 6424 2494): "The Predicament Faced by Large, Medium State Enterprises—Causes and Countermeasures"]

[Text] I.

State-run large and medium enterprises are important pillars in China's modernization construction and are the principal sources of the state's financial income. According to 1989 statistics, there were 10,706 state-run large and medium enterprises in the country, only 0.13 percent of the total number of industrial enterprises, but holding 63.9 percent of the total fixed assets, accounting for 35.2 percent of the industrial gross output value, and also accounting for 61.1 percent of the realized profits and taxes. They made big contributions to the state. Following a decade of reform and opening up to the outside world, both in respect of the operation and management system and in the operation mechanism of the state-run large and medium enterprises, deep changes have been effected which have played an important role in realizing the strategic targets of China's national economic development and maintaining the national economy's sustained, stable, and coordinated development.

However, following the development of the economy and the continuous deepening of the reform, state-run industrial enterprises, particularly large and medium

enterprises, have steadily exposed, in the course of the improvement, rectification, and "retrenchment policy," certain of their concealed problems in the economy's "high-speed growth." Compared with township and town, collective and foreign-invested enterprises which have risen in recent years, in market competition and on such subjects as structural readjustment, they have lacked vitality and the ability to meet contingencies and are facing a rather serious situation. The principal manifestations are as follows:

First, sustained negative growth rate in production. According to statistics on 79 major cities and towns, beginning from the second half of 1989, state-run industry (comprising mainly large and medium enterprises) has shown a rapid fall in production, with 1990 showing the lowest growth rate in state-run industrial production during the Seventh Five-Year Plan. Since last year, the gradual revival and rise in the country's industrial production has principally relied on the township and town and foreign capital enterprises. Of last year's newly increased industrial output value, township, town, and collective enterprises accounted for 40 percent and the foreign-invested enterprises accounted for 33 percent; whereas state-run enterprises, only 27 percent. If it can be said that the country's industry has begun to climb out of the low pit, then state-run large and medium enterprises are still somewhere in the bottom of the pit.

Second, a continued downward slide in the enterprises' economic effects. In 1990, the deficit trend of state-run industrial enterprises not only was not effectively checked but also became daily more serious. Of the over 19,400 state-run industrial enterprises in 79 cities and towns, one-third suffered from deficits; the amount of the deficits was more than double that of the preceding year. As a result of the deficit volume, deficit enterprises offset over 30 percent of the gross profit volume of profit-making enterprises, the gross volume of profits showed a major downturn, dropping to 45.8 percent. At present, in some enterprises, the assets cannot offset the liabilities, while other enterprises, due to heavy losses, are in a state of stoppage or semi-stoppage, in production.

Third, a large-scale fall in the targets of the enterprises' comprehensive economic effects. In 1990, the gross production cost of comparable products of industrial enterprises in the national budget rose 6.5 percent, realized taxes on profits dropped 18.8 percent, and realized profits dropped 56.7 percent. In state-run enterprises in major cities and towns at the end of the third quarter of 1990, the fixed circulating funds in use increased 16.5 percent over the corresponding period of the preceding year, from the first to the third quarter the profit and tax rate on capital dropped 7 percent, the per capita profit and tax dropped 21.3 percent, and enterprise profit retention dropped 23.6 percent.

## II.

The causes of the current difficulty of the state-run large and medium enterprises are many and varied. There are

the effects of certain new contradictions arising in the course of the economic improvement and rectification in recent years and there are also certain effects of deeplying contradictions accumulated over the years. Seen from the present, the principal problems impairing and restricting the vitality of state-run large and medium enterprises are the following:

First, instability in the enterprise reform policy. The contracted operational, plant head's and enterprise internal responsibility systems constitute a whole and closely-knit responsibility system structure. Under the precondition of firmly insisting on the public ownership system, this reform effectively solves the problems of the adequate separation of the two powers and the simultaneous tending to the three parties interests. With this, the enterprise begins to have an operational mechanism which combines encouragement and restraint. Regarding such an important policy bearing on the whole situation, despite the central authorities repeated emphasis on its continued implementation, in actual work, various kinds of criticisms frequently came from various sides and nobody had any idea of what ultimately should be done. This caused the enterprises to be unstable and adversely affected the enthusiasm in production on the part of the enterprises and the staff members and workers.

Second, failure of execution of enterprise's autonomous rights in operation. In the 10 years of reform, both the central and local governments have initiated a series of policies and measures on expanding the enterprise's autonomous rights and on enlivening the enterprises. Promulgation of the "Enterprise Law" has put the enterprises' work on a legal track and definitely stipulated the enterprises' autonomous rights. But in actual work, these regulations and policies have either been difficult to implement or were intercepted by governments and departments at various levels. In such aspects as production plan, funds, workers' wages, technical transformation, and even the establishment of internal organs, the state enterprises have been victims of excessive control from various sides and their autonomous power in operation cannot be fully displayed.

Third, large and medium state enterprises have been subjected to heavy mandatory tasks, and the product price policy has not been rational. Large and medium state enterprises have borne the state's mandatory plan. Under the conditions of the state enforcing the "double tightening" policy and greatly cutting down the capital construction scale, the demand for products related to investment of the large and medium state enterprises has been seriously affected. Steel materials, cement, machines, motor vehicles, and so forth, which had been lacking before, all suffered from slack demand and faced the serious situation of having to be increasingly stored up and stockpiled. This caused some enterprises to limit or stop production and brought about stagnant growth in the metallurgical, nonferrous, chemical, and electrical machinery industries and trades. At the same time, as a result of the state's harsh control over the prices of

mandatory products and its inability to supply the needed quantities of raw materials for these products, the large and medium state enterprises have been subject to the "losing proposition" of buying in at high prices and selling out at low prices and of "the more the mandatory plans the greater losses they must suffer." The two large industries of coal and petroleum are the important pillars supporting the entire national economy. But in the existing price policy, price and value are found in seriously opposite directions. Not to say increasing their development stamina, there is even difficulty in maintaining the simple production of coal pits and oil fields. This is one of the important reasons for the economic downturn in recent years.

Fourth, large and medium state enterprises have suffered from a heavy tax burden and many kinds of levies and impositions. In recent years, the enterprises' economic effects have been largely transferred to taxes, fees, deposits in sinking funds, interest payments, and various kinds of social levies and impositions. According to a State Council survey of 14 provinces and cities, there are 44 kinds of taxes, fees, sinking funds, and debentures which the enterprises must deliver. According to a China Industrial Economic Federation sample survey of 193 state large and medium enterprises of various industries and trades in Beijing, Tianjin, and Shanghai, of an enterprise's net income, 81.6 percent was delivered to governments at various levels in the form of tax, profit, fee, sinking fund, or subscription to debentures; 10.2 percent was spent on repaying special loans; the enterprises' actual profit retention was only 8.2 percent. Actually, the profit retention mentioned here did not include the various kind of random levies, raising of funds, collections, and fines. The burden borne by the large and medium state enterprises has become increasingly heavy, and the enterprise's profit retention has been drastically reduced, which has greatly weakened its ability to self-adjust and improve its product structure.

Fifth, large and medium state enterprises have suffered from the serious ageing of their equipment and technology and from insufficient development stamina. This point is all the more seriously reflected by the traditional industries in the old industrial zones. Of Liaoning province's 941 large and medium state enterprises, 604 were established in the 1950's. Outside of 38 of these enterprises which have undertaken overall transformation, the remainder have stayed at their original technological level. The equipment of the principal industries and trades, such as metallurgy, machine-building, petrochemistry, and building materials has basically stayed in the same condition for "five generations," with only 7.2 percent reaching the international advanced level, and 18.3 percent touching the domestic advanced level. Of the electrical machinery products in the whole country, over 60 percent are at the 1960's level. The country's textile industry has some 36.50 million spindles, of which 20 million are at the 1950's level. At present, over 20 percent of the state enterprises equipment have surpassed their service age.

Insufficient funds are the outstanding contradiction affecting the enterprise's technological progress and technical transformation. First of all, the enterprises have little depreciation funds for use on transformation. On the one hand, the depreciation rate of China's state enterprises is too low; the general industry's depreciation rate is 5.3 percent. After delivering the "two funds," the actual depreciation rate is only 3.98 percent and equipment renovation can take place only after over 20 years. On the other hand, the planned depreciation method is too simple; there is no planned depreciation accounting system against currency inflation conditions. According to estimates, in 1988, the replacement price of state enterprises' fixed assets was about 160 percent of the original value and, in the case of the older enterprises, the comparative cost would even be lighter. Second, in recent years, the state enterprises' burden has been rather heavy, the enterprises' profit retention has greatly fallen and their input capacity has been sadly insufficient. In 1989, the enterprises' per capita profit retention was 921 yuan, smaller by 73 yuan compared with 1988; and in 1990, compared with 1989, there was again a decline of around 30 percent. Third, in China, the enterprises' planned retention of technological development expenses averaged only about 0.5 percent and the ability to push technological progress and self-readjustment of the product structure is sadly lacking.

Sixth, the large and medium state enterprises' circulating funds are seriously insufficient and, as a result, their loan burden becomes increasingly hard to bear. At present, the contradiction of the incompatibility between the amount of the large and medium state enterprises' circulating funds and their production development needs is becoming daily more serious. According to statistics, the ratio of the self-owned circulating funds of state industrial enterprises in the whole country dropped from 65.7 percent in 1978 to 25.6 percent in 1988, while concurrently, the enterprises' circulating fund loans increased 417 percent, averaging an annual progressive increase of 17.8 percent. Thus, the results of the low depreciation rate and the enterprises' development expenses are: On the one hand, they have led to the enterprises becoming increasingly dependent on bank loans for production development, renovation, and transformation and any changes in the state's financial and currency policy would greatly impact on the enterprises' production and operation. For example, the tightening of the money market in 1985 and 1988 both caused a major drop in enterprise production in the succeeding year. On the other hand, following the continuous rise in the bank loan interest rate, the enterprises' payment of loan interest has drastically increased and the loan burden has become increasingly heavy. According to statistics from Guangdong, Henan, and Hunan, in 1989, enterprises' interest payments amounted to roughly 80 percent of their realized profits, and in the first half of 1990, with the capital profit rate of the country's state industrial enterprises having

dropped to 2.99 percent, the majority of the enterprises could not stand the 10 percent, or above, loan interest rate charged by the banks.

Seventh, the state's policy differences, vis-a-vis enterprises under different ownership systems, have caused the state enterprises to lack the conditions for equal competition with the collective, township and town, and other types of enterprises. In recent years, the strong points enjoyed by the state enterprises have been on the downturn whereas the collective, township and town, and other types of enterprise have risen in importance and rapidly developed their production. This was principally related to the state's preferential policies. According to 1989 statistics, in the case of collective, township and town, and other types of industrial enterprises, their product sales tax rates were respectively 5.3 percent, 5 percent, and 4.5 percent; the ratios of their upward delivery of profits and taxes out of the realized profits were respectively 29.3 percent, 25.7 percent, and 31.2 percent; their depreciation rates were respectively 6.4 percent, 6.8 percent, and 6.4 percent; and the ratios of their profit retentions out of the total realized profits were respectively 19.2 percent, 20.9 percent, and 20 percent. Whereas, in the case of enterprises owned by the whole people, during the same period the ratios of the above-mentioned four targets were respectively 9.3 percent, 49.6 percent, 4.3 percent, and 17.4 percent, thus forming a strong contrast. This was one of the important causes why in recent years enterprises owned by the whole people have shown an obvious depletion or insufficiency in self-development capacity compared with enterprises under other ownership systems.

Eighth, a portion of the state enterprises had poor management; weak ideological, political, and basic management work; imperfect rules and regulations; and generally loose labor discipline while their consumption rate of raw materials was rising and the quality of their products was falling. According to statistics, in the first half of 1990, among the major enterprises, in energy consumption the target stabilized lowering rate, dropped from 64.4 percent in the corresponding period of the preceding year to 46.7 percent, and the stabilized improvement rate in product quality likewise dropped from 73 to 66.7 percent. Some of the state enterprises were found to have been untrue in their cost accounting; not only their book deficits (overt deficits) showed a large increase but also their concealed deficits (hidden deficits) outside the book accounts and their losses amounted to a very high and serious degree. In addition, in some of the enterprises the egalitarian practice of "everybody eating from the same big pot" has reappeared, thus seriously impairing the production initiative of the cadres, staff members, and workers.

### III.

Regardless of speaking about overcoming the current difficulties or the long-term development from now on, it is necessary to take the enlivening of the large and

medium state enterprises as the starting point and foothold in the various kinds of work. The basic way out is to firmly and irrevocably deepen reform. Seen from the moment, we must start from policy, integrate the solution of the existing difficulties of the large and medium state enterprises with long-term development, deepen enterprise reform, and erase benign external conditions, and adopt practical and workable measures.

First, firmly insist on the guiding ideology of enlivening the enterprises and maintaining the policies continuity and stability.

It is necessary to firmly insist on continuing the policies and measures which, in the past 10 years of reform, have been found to have been effective in strengthening the enterprises' vitality and promoting production development, further enforce the "Enterprise Law," and hold firmly to the plant head responsibility system. Indeed, we must let the enterprises truly possess autonomous power in operation clearly endowed to them by the state's relevant statutes, regulations, and policies. Governments at various levels and departments in charge of enterprises should take enlivening of the enterprises, particularly enlivening the large and medium state enterprises, as the starting and staying point in their work, seriously examine the disposition of the enterprises' autonomous power, look into the documents they have issued to the lower levels and if any are found to be inconsistent with the prescribed spirit of the party Central Committee and the State Council enlivening the enterprises, they should be immediately annulled or rectified.

Second, continue to firmly insist on and perfect the enterprise contracted operational responsibility system. The contracting system is an operational form which has been gradually formed and developed and is in harmony with China's present development level of the productive forces and the management level of the enterprises. Actual practice in the past several years has proven that the contracting system possesses a mechanism encouraging the enterprises to make more creations and making the "cake" of economic effects steadily increase in size. It is vital to overcoming the state's financial difficulties and strengthening the enterprises' vitality. During the Eighth Five-Year Plan period, it is necessary to continue to take the contracting system as the main operational form in enlivening the large and medium state enterprises and in actual practice to continuously develop, perfect, and fully utilize the operational mechanism of the combination of the contracting system's role of encouragement and restriction. The enterprises should be encouraged to create and retain more, so as to arouse their enthusiasm and that of their staff members and workers and make the large and medium state enterprises, concurrently with ensuring the stability of the state's fiscal income, gradually able to make self-accumulations, self-transformation, and self-development, and realize a benign cycle for input and output. As for those large and medium backbone enterprises which accord major support to the state and have important

technical transformation tasks, their contracting base figure should be rationally determined in accordance with the concrete condition of their technical transformation to maintain and gradually augment the profit retention level necessary for their development stamina. The contracting period of the large and medium enterprises must be the same as the period necessary for their big and important technical transformation.

In the new round of enterprise contracting, such tasks as technical transformation, loan repayment, supplementing circulating funds, strengthening management, and raising the economic effects should be incorporated into the contracting agreement. We should establish a comprehensive contracting target assessment system which comprehends the three mutually coordinated targets, namely, economic effect target with the profit target as the center, development stamina target with technical transformation as the center, and management target with elevation of the enterprise's quality and calibre as the center. The restriction mechanism over the enterprise should be strengthened. It is also necessary, by means of the enterprise internal responsibility system, to have the various state contracts of the enterprise assigned level by level to the workshops, teams, and individuals to manifest the spirit of all the personnel participating in the contracting and jointly sharing the risks.

Third, rational reduction of the enterprise's taxes and definite lightening of its burden. In the Eighth Five-Year Plan period, the state should no longer stage or collect new taxation schemes. The relevant departments should carefully review, simplify, and merge the existing taxes, tax rates, levies, and levy rates. They should abide by the demand of the state's industrial policy, and adequately lower the product tax of the "short-line" industries and trades, and the value-increment and resource taxes on mining enterprises. They should fix anew and readjust the whole taxation system covering enterprises owned by the whole people, collectives, townships and towns, as well as enterprises under other ownership systems to provide conditions for large and medium enterprises to compete in equality.

It is necessary to further lower the bank loan interest rate and, in accordance with the state's industrial policy, to charge different rates for different industries, trades, and enterprises. The bank interest rate should be promptly readjusted in accordance with the national economy's operational conditions and the level of the enterprises' economic effects. The interest burden of the enterprises should be gradually lightened to promote the enterprises' production development.

There must be a planned and systematic reduction in the energy and communications sinking and budget regulation funds collected from large and medium enterprises. If the state finances can bear the burden, then beginning from 1991, and starting with the energy, communications, and basic raw materials industries and a portion of the large and medium backbone enterprises receiving

the state's major support and undertaking heavy technical transformation tasks, the enterprises should be exempted from having to pay the planned contribution to the "two funds" from the prescribed depreciation funds; while their prescribed contributions to the "two funds" from their profit retentions should be reduced 5 percent each year and be entirely abolished during the Eighth Five-Year Plan period. As for other large and medium enterprises, their contributions should also be gradually reduced or eliminated in accordance with the state's industrial policy.

Fourth, strengthen technical transformation and promote the enterprises' technical advancement. Performing a good job in technical transformation and promoting technological progress are the basis for strengthening the enterprise's vitality and stamina. At present, the outstanding problem is the insufficient technical transformation funds. The way out is to raise funds through various channels. The three existing measures adopted are:

1. In the Eighth Five-Year Plan period, the large and medium state enterprises will continue the policy of loan repayment prior to tax payment. Regarding large and medium enterprises which conform with the state's industrial policy and are carrying rather heavy technical transformation tasks, the banks should take into consideration the concrete conditions of their technical transformation projects, provide them with priority assurance in funds, and enforce the preferential policy of low interest rates and exemption from interest charges. In the case of some old large and medium backbone enterprises which enjoy major state support, carry heavy technical transformation tasks, and have difficulties repaying loans, upon the state's sanctioning, they should be allowed within a stated period after their projects have gone into production to be temporarily exempted from delivering profits and taxes and to use the tax funds to repay loans.

2. Gradually raise the depreciation rate on fixed assets of large and medium state enterprises. Large and medium state enterprises which abide by the state's industrial policy, carry heavy technical transformation tasks, possesses good economic effects, and can bear the burden should be allowed to raise their depreciation rates within the prescribed extent. In order to solve the contradiction of insufficient fixed assets compensation funds, the state's industrial policy should be followed and a portion of the large and medium backbone enterprises should be selected to carry out assets reassessment or revaluation and to do piloting on revaluating work on the assets according to replacement cost.

3. Set up new products development funds. Regarding large and medium backbone enterprises which receive the state's major support, are quick in their technical renovation work, and possess hidden potential in export foreign exchange earnings, we should enforce the policy of setting aside in a planned manner new product development funds from among the sales receipts. The

proportion of the new products development funds to be set aside should depend on the different conditions of the enterprises and preferably occupy 1-3 percent of the sales receipts, be put into the production cost, and entered separately into the accounts to be used as a special fund.

Fifth, determining anew and supplementing the fixed circulating funds of the large and medium enterprises and gradually easing the acute situation in the enterprises' circulating funds. Determining anew and supplement the enterprises' fixed circulating funds should be conducted in a planned and systematic manner. In consideration of the possible existing state financial burden, in the Eighth Five-Year Plan period, principally, we should do the piloting work first among the large backbone enterprises which have the state's major support and have a large gap in their circulating funds. The sources of funds for supplementing the enterprises' circulating funds are: 1. Taking out a fixed portion of the enterprises' sales receipts each year and entering it into the production cost as a special fund for special uses. 2. Clearly stipulating in the enterprise's contracting agreement the amount of circulating funds to be supplemented from the enterprise's profit retention each year, this to be subjected to strict checking. As for the other large and medium enterprises, they should themselves gradually supplement the funds on the basis of increased production and receipts and develop the practice in a planned manner when and as the conditions are ripe. As for the newly completed projects already in production since the Seventh Five-Year Plan period, the state should appropriate fully the amount of circulating funds needed to be supplemented so that these projects can quickly produce results. From now on, in arranging for construction projects, the state should, on the precondition of duly considering the factor of commodity prices, include in the gross investment estimates the full amount of circulating funds needed so that there will not be any gap left in the capital funds and to avoid the completed enterprises being in a position of inability to run normally.

Sixth, it is necessary to further expand the autonomous power in production and operation on the part of large and medium state enterprises. Following the deepening of the economic structure's reform and the market's continuous development and growth, the relevant departments should further reduce the variety and quantity of products under the mandatory plan imposed on large and medium state enterprises, expand the self-marketing ratio of the enterprises' products, push the enterprises to enter the market, and display the market mechanism's role. Regarding those products which presently must be distributed under the state's mandatory plan, a fixed proportion should be designated to be subjected to the measure of being distributed under the state plan but with their prices fixed by mutual consultation between the supply and demand sides under a price ceiling fixed by the state.

It is necessary, based on the state's industrial policy and the actual needs in the enterprises' production and operation, to select a portion of the large and medium backbone state enterprises, which have the necessary qualifications, to endow them with autonomous power in external economic activities, including the power for external trade negotiations, direct import and export, and designation of personnel to be stationed abroad. In addition, policies should be adopted in their support, encouraging them to display the strong points of integration of technology, industry, and trade; open up international markets, expand the export of products, technology, and labor services; and create more foreign exchange earnings for the state.

Seventh, develop enterprise groups and readjust the enterprise's organizational structure, taking the large backbone state enterprises as the nucleus. Developing enterprise groups is beneficial to pushing the rational flow of the essential factors of production, achievement of dimensional effects, and development of specialized cooperation; beneficial to promoting the readjustment of enterprise organizational structure and product structure; and beneficial to opening up major technology, thus forming a strong force and strong competitive power. The current major points in developing enterprise groups are: 1. Formulation of policies and measures and actively encouraging and supporting large backbone enterprises, through various forms of share participation, share control and enterprise merging, to develop enterprise groups which straddle localities, industries, and trades and consist of many layers. 2. Perfection and elevation of the existing enterprise groups, strengthening the link connecting the assets of the constituent member enterprises and augmenting the group's nucleus. 3. Perfection of the enterprise group's production, operation, and management system, making it gradually become the enterprise group's production, operation, and management system of various grades and consisting of the three levels of investment center, profit center, and production-cost center. Regarding specially large enterprise groups with a vital bearing on the national economy, they should be allowed to serve as the state's general contractor, be listed in the state plan, and endowed with the autonomous power in operation according to the state's relevant policies including foreign trade autonomous power; decision-making power in investment; power of merging funds within the group; and power to raise funds through issuance of stocks, shares, and debentures in society.

Eighth, it is necessary to adopt definite measures to ensure and protect the production conditions of large and medium enterprises.

In order that large and medium enterprises with a bearing on the national economy and people's living can, in a relatively stable environment, play an even larger role in developing the national economy, the relevant departments should continue to carry out the preferential policy of priority insurance and major support to the large and medium enterprises on various sides such as

finance and material power, and make overall planning and arrangements for the large and medium enterprises' production, technical transformation, and new product development. Whenever mandatory planning tasks are concerned, the state should make overall arrangements and reciprocal liaison in respect of production, supply, sales, and transport. The state's planned allocation of energy, funds, and raw materials should be sent directly to the enterprises, to avoid and reduce intermediary embezzlement.

Ninth, further deepen reform of the enterprise's internal coordination and strengthen enterprise management. Large and medium enterprises should continue to consolidate, improve, and perfect the successful experiences they have achieved in recent years on various sides of reform in their internal personnel, labor, and distribution systems. They should firmly insist on implementing the principle of distribution according to work, adopt various kinds of flexible distribution forms, and link together the income of the staff members and workers with the enterprises' effects and the individual's labor results. Income disparity should be adequately widened, the diligent should be awarded while the lazy should be punished and the positivism and enthusiasm of the staff members and workers should be aroused. In enterprises with the necessary conditions, they should continue to push the amelioration of labor organs and gradually set up a labor competitive mechanism within the enterprises.

We must further raise the management level of the large and medium enterprises. The major points of the current work are: we should, surrounding the activities of the development of the year of "quality, variety, and efficiency," push the enterprises to look inward, tap internal potentials, strive to improve product quality, readjust product structure, lower the consumption of materials, raise the economic benefits, and gradually realize the conversion from the speed type to the effect type.

Tenth, strive hard to establish a stable and loose external environment for the enterprises. We must further adopt economic and administrative measures to ease the contradictions of market weakness and fatigue. The state should further loosen the forces of the "double retrenchment" measure; increase investments on the major investment projects in the energy, communications, and other sectors; alleviate the control of the technical transformation projects of the large and medium enterprises; and formulate preferential policies to accord great support to the production of enterprises earning foreign exchange from exports, raising their competitive power and enabling them to enter the international market.

It is necessary to further grasp the clearance and liquidation of triangular debts and ensure the return and recovery of the large and medium enterprises' capital investments. Effective measures must be taken against units intentionally delaying payments, force them to clear their debts, and pay up on their outstanding

interest and penalty interest payments, thus sternly enforcing financial discipline.

It is necessary to firmly grasp the establishment and perfection of the social protective structure, gradually open up the social labor market, and push the rational movement of labor forces to create conditions for arranging well the enterprises' surplus workers and further elevate the enterprises' labor productivity.

It is also necessary to further strengthen economic legislation, fortify and strengthen the economic law-enforcing organs, and maintain and protect the enterprises' lawful interests. Governments at various levels and departments in charge of the enterprises should take the prevention and stopping of the irregular practices of gradually eating up the enterprises' interests through profuse and random levying of fines, sundry fees, and various impositions as an important content in their economic improvement and rectification, deepen of reform, and pushing forward an honest administration and should firmly and continuously grasp this to create a benign external environment for the enterprises.

## FOREIGN TRADE, INVESTMENT

### Pros, Cons Of Adjusting Foreign Exchange Rate

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[Article by Lu Daquan (0712 1129 3123), Gu Guomin (7357 0948 2549), and Yang Chongyi (2799 1504 5669): "Pros and Cons of Adjusting the Foreign Exchange Rate"]

[Text] China devalued the renminbi on 6 December 1989 and again on 17 November 1990. More than a year later, it is now increasingly clear that exchange rate adjustments have effectively ended renminbi overvaluation, encouraged exports and curbed imports, and improved the nation's international payments. However, problems and difficulties too have been fully brought to the fore. Evaluating the impact of the several rounds of devaluation on the domestic economy and taking suitable countermeasures is an important topic that urgently awaits our attention right now. This article is a preliminary analysis of the particular circumstances in Shanghai.

#### A. Six Impacts of Exchange Rate Adjustments on the Shanghai Economy

##### 1. A drop in export losses and a decline in the profits of industrial and trade enterprises.

In 1989 Shanghai's local exports amounted to \$5.03 billion, with export losses reaching \$3.3 billion. The corresponding figures for 1990 were \$5.32 billion and \$2.3 billion. Export losses are projected to register another decline this year. This shows that the local ability to handle foreign trade has increased because of



the devaluation of the renminbi. Nevertheless, there has been no gain in the real benefits for industrial and trade enterprises. First of all, foreign exchange regulatory prices have experienced a corresponding decline, resulting in less ability to make up the losses on the export front and in less profits. Right now foreign exchange regulatory renminbi has become one of the main sources for making up the export losses by industry and trade. In 1989, actual transactions on the Shanghai foreign exchange regulatory market were worth \$1.2 billion, of which as much as \$1 billion were used by sellers to cover export losses or increase earnings. In 1989, \$1 sold an extra 2.50-3.0 yuan. In 1990, \$1 could sell an extra 0.60 to 1.0 yuan only as a result of the exchange rate adjustments and the tight money policy. In 1990, industrial and trade enterprises in Shanghai suffered about 1.5 billion yuan in losses due to retained foreign exchange regulatory price differences. At present the renminbi is being traded at around 5.7 yuan to the dollar on the Shanghai foreign exchange regulatory market, making it that much harder for export enterprises, particularly enterprises in experimental lines of business, to be accountable for their profits and losses. Second, the domestic procurement prices of export commodities have continued to rise, further depressing export earnings. Because of the exchange rate adjustments and inflation in the last couple of years, the procurement prices of export commodities in Shanghai climbed sharply in 1990. For the entire year the procurement price index for foreign trade exports rose 10 percent or so over the same period a year ago and will continue to edge up this year. At a time when export prices are struggling to hold their own and are actually slipping, the composite economic performance indicator of foreign trade enterprises is clearly declining.

## 2. Difficulty in curbing import demand. Rising costs imposing a heavier burden.

About 90 percent of Shanghai's imports currently consist of raw materials that are in short supply and for which no significant domestic substitutes are likely to appear in the near future. In 1990, imports through the port of Shanghai dropped 25 percent compared to the preceding year, due less to the exchange rate adjustments than to the stringent foreign trade policy of last year. As the domestic market slowly recovers, the demand for imports will again bounce back. However, the devaluation of the renminbi has combined with increases in taxes and fees to jack up the costs of importing considerably. It has been estimated that \$4.5 billion worth of imports are required for the two years of 1990 and 1991. Of this amount, \$500 million in foreign exchange bank loans and spot exchange from enterprises funded by the three capital sources would not be affected by exchange rate changes. On the other hand, exchange rate adjustments have directly pushed up the costs of importing using local retained foreign exchange to the tune of 1.2 billion yuan. The idea is to "use imports to promote exports." Because of the two rounds of devaluation, however, enterprises in the business of processing purchased materials will have to shell out 37.4 percent more

in related renminbi funds, with corresponding increases in interest rates and taxes. Moreover, because of changes in base numbers for the prices of processing with purchased materials, profits and tax targets go up correspondingly, which means the production enterprises involved have to pay more taxes to the authorities even as export delivery prices could not increase at the same pace. Thus the more enterprises export through processing with purchased materials, the more they stand to lose, which deals a setback to the drive to begin and end the production process on the international market by importing raw materials and exporting finished products.

Assuming that Shanghai enterprises consume 50 billion yuan worth of materials each year, exchange rate adjustments cause material consumption to increase 2.54 percentage points, which, in turn, pushes up the comparable production costs of Shanghai industrial enterprises within the budget by 3-4 percentage points.

## 3. The devaluation of foreign exchange certificates makes it more difficult to earn foreign exchange through nontrade channels.

The adjustment of the exchange rate in effect also devalues the foreign exchange certificate by the same margin. Before December 1989, 3.72 yuan could be traded for \$1. Now you need 5.22 yuan worth of foreign exchange certificates to get \$1. Because of the 4 June events and over-building in the hotel industry, resulting in excess capacity, the tourist industry is now in a recession. Consequently, despite the adjustment of the exchange rate, the industry is not in a position to raise the prices of foreign commodities or charge more for its services. Instead, the trend is for the industry to lower prices. This is a double blow to hotels that cater to foreign visitors, stores that sell tourist goods, and other nontrade foreign exchange earning concerns. On the one hand, hotel projects that utilize foreign capital see their debt go up as a result of foreign exchange rate adjustments. On the other hand, apart from the prices of overseas gold ornaments and airfares, which have been adjusted upward, the prices of other tourist commodities and tourist services have remained largely unchanged. But even though the purchasing power of foreign consumers has improved, there are still difficulties in attracting large number of tourists and increasing foreign exchange earnings. In 1990, the number of tourists visiting Shanghai went up 20 percent compared to the year before and nontrade earnings also expanded 20 percent or so in renminbi. Converted into dollars, however, the earnings have only held steady.

## 4. The profits of Sino-foreign joint ventures have fallen, making loan repayment more costly.

Utilizing foreign capital to transform traditional industries and expediting product turnover is a basic economic development strategy along the coast. In the past few years, Shanghai utilized a total of \$2.7 billion in foreign capital. Direct annual investment amounted to

\$400 million, while actual investment reached \$300 million. In most joint ventures these days, the registered capital of the foreign partner is in U.S. dollars, while the investment by the Chinese partner is in renminbi converted into dollars. Suppose each side puts up 50 percent of the capital. After the exchange rate was adjusted downward, the Chinese partner puts up the same amount of capital in renminbi, which, however, represents a smaller investment proportion when converted into dollars. This, in turn, means the Chinese side stands to benefit less from the earnings of the joint venture. If the Chinese partner wants to maintain its share of the capital, it must pay 37.4 percent more in renminbi. In that case, Shanghai must spend an extra 450 million yuan each year in funds. In addition, exchange rate adjustments have an impact on foreign exchange loans. Total investments in Shanghai's five top infrastructural projects, for instance, so far amount to \$1.15 billion, while principal and interest payments amount to \$1.96 billion. Because of changes in the exchange rate, Shanghai now finds it necessary to shell out almost 3 billion yuan more to pay for foreign exchange to repay the loans, resulting in a heavier debt burden and longer repayment periods.

5. More funds are being taken up and the scale of lending is increasing rapidly.

Judging from the situation in Shanghai, the increase in exchange settlement in renminbi after the exchange rate adjustment is not enough to offset the extra money enterprises need to pay for imports. Suppose the actual export exchange settlement in Shanghai amounted to \$4.6 billion in 1990 and foreign exchange funds turn over twice on the average each year. Thanks to exchange rate adjustments, local banks settled 2.3 billion yuan more (representing a real increase in investment by the Central People's Bank). However, 1) because of rising procurement prices and other expenses, the costs of exporting and earning foreign exchange went up 1.1 yuan per dollar in 1990 compared to 1989, which translates into \$2.6 billion in additional spending by foreign trade enterprises. 2) In 1990 imports were valued at \$2.042 billion and the foreign trade sector increased spending by \$1 billion. Because of exchange rate adjustments, Shanghai had to increase spending by almost \$1.3 billion, about 10 percent of the actual increase in borrowing for the entire year. This has worsened fund shortages.

6. With market sluggishness masking price contradictions, the impact of exchange rate adjustments have not been fully felt.

It should be recognized that the downward adjustments of the exchange rate have negative effects on commodity prices at home. According to preliminary computations, because of the adjustments, increases in the prices of imported commodities, as well as increases in the two taxes and four fees, Shanghai will have to spend 750 million yuan more in 1990 and 580 million more in 1991. Let us leave aside the share of foreign exchange

used to pay for imports required by technological transformation projects in industry. Assuming that social commodity retail sales in all of Shanghai are worth 35 billion yuan each year. Market prices were raised 1.5 percentage point in 1990 and about 1 percentage point in 1991. The current market sluggishness, however, has depressed price rises significantly, masking price contradictions. In 1990, Shanghai's retail price index was 104.8 percent and the capital goods price index was 108.1 percent; the inflationary impact of currency devaluation on price was almost invisible. This is why. First of all, while the devaluation of the renminbi has side effects, most of its impact is felt in consumption and production areas related to imports. Besides, the price index is still not being calculated in the most rational manner. So the extent and degree of the ultimate effects of currency devaluation on the market are limited. Second, after more than a year's effort to improve the economic environment and rectify the economic order, the state has become better able to control market prices on the macroeconomic level. The adoption of austere monetary and fiscal policies, in particular, is tantamount to erecting a "fire wall" to keep out inflation by excluding rising import prices, thus preventing the import of inflation all round. In this sense, the two rounds of exchange rate adjustment were rather well-timed. Third, owing to exchange rate adjustments, the import prices of some raw materials, on the one hand, and price ceilings set by the state, on the other, are out of step with one another. For instance, copper, a nonferrous metal, sells for \$ 2,600 per ton on the world market. Within China, imported copper is being supplied at 21,000 yuan per ton, while the maximum price set by the state is only 17,000 yuan. With import prices higher than domestic prices, import enterprises cannot stay in business. Fourth, in late 1989 enterprises were well stocked with raw materials. In 1990, the market was sluggish. Enterprises, strapped for funds, operated under capacity. For all these reasons, the volume of imports actually fell, masking some of the effects of exchange rate adjustments.

#### B. Evaluating the Effects of Exchange Rate Adjustments

The above analysis makes it clear that given the present price system, industrial setup, and trade structure, the policy intent of exchange rate adjustments by the state does not always dovetail with the actual results at the local level, the benefits of exchange rate adjustments being offset by a variety of constraints. As a result, the effects of currency devaluation represent only a steadily downward slope. Specifically:

First of all, domestic inflation has eaten up the benefits of adjustment that might otherwise have accrued to industrial and trade enterprises. Between 1985 and 1988, China twice adjusted the exchange rate of its currency by a total of 32.1 percent. During the same period, however, domestic retail prices rose 52.6 percent. The extent to which the renminbi was devalued at home exceeds the extent to which it was devalued overseas. The upshot is that by late 1988 the exchange

rate had effectively fallen to below the level in 1984. To put it differently, the effects of the downward adjustment of the exchange rate in 1985 and 1986 have also been offset by price increases at home. After 1989, as the drive to improve the economic environment and rectify the economic order was under way, the inflationary momentum has been checked. However, due to the lingering effects of years of inflation, the retail price index for 1989 was still a high 17.8 percent, again pushing up the value of the renminbi vis-a-vis other currencies. Thus the latest round of exchange rate adjustment is actually an acknowledgement in retrospect of past price increases and a correction of the overvaluation of the renminbi. This kind of adjustment will not encourage exports and curb imports in any satisfactory way. On the contrary, an exchange rate adjustment releases the pent-up inflation hitherto confined to within the nation and gives enterprises that produce exports an opportunity to raise delivery prices. In 1990, for instance, foreign trade procurement prices in Shanghai rose 10 percent or so on the average compared to a year ago. Procurement prices for textile products jumped 20 to 25 percent, largely neutralizing the effects of exchange rate adjustment. Moreover, the downward adjustment has caused export prices to drop. As a result, foreign trade enterprises are caught in a double bind. Externally, the prices of their products are slipping. Domestically, they have to pay higher procurement prices. Their enthusiasm for foreign trade has been much dampened.

Second, "export elasticity and import rigidity" has prevented the policy of renminbi devaluation from working. Currency devaluation is intended to boost exports and reduce imports. For those things to happen, however, one precondition must be met: Enough potential exists within China to boost exports and cut down on imports. Yet China's export mix, of which raw materials and their finished products make up 55 percent, is a typical primary-products export mix. Even coastal areas like Shanghai and Guangdong, where light industrial and textile products along with electrical machinery constitute a larger share of exports, have difficulties expanding exports any time soon because of quotas imposed by developed nations and various other trade barriers. As for the import mix, there is little slack to cut back at the moment. About 50 percent of the nation's imports consist of raw materials needed for domestic production. Another 35 percent consist of technologically advanced machinery and equipment. No matter how expensive they are, we have no choice but to grit our teeth and import them. The remaining 15 percent is made up of materials for living, mainly grain (about 7 percent or so), sugar, and other necessities essential to ensure adequate supply at home. There is little fat to trim here. Constrained by the current import and export mix, therefore, exchange rate adjustments in the end will have difficulty achieving what they are supposed to achieve—balancing international payments.

Finally, sharp conflicts between financial and foreign trade contracting systems are another factor undercutting the effectiveness of exchange rate adjustments. "The

delegation of foreign trade authority and decentralization of management" has become a new feature of the foreign trade system. Under fiscal contracting and foreign trade contracting, many enterprises, falling back on the financial backing of local governments and prompted by self-interests, scramble for procurements at home by paying inflated prices while slashing prices abroad to increase sales, all in order to get hold of more retained foreign exchange quotas. With foreign trade enterprises engaging in this kind of trade practices—exporting through multiple ports and underselling one another, factories have to operate at a loss and the costs of exporting to earn foreign exchange go up. As they say, what we have right now are factory production costs of the 1990's and sale prices of the 1970's and 1980's. The upshot is an "external outflow of profits" and even sheer losses. For many commodities, the volume of exports has increased significantly, but their export prices have dropped time and again. There is no direct proportional relations between the increase in foreign exchange incomes and the growth of export volume. Shanghai Yibao Import and Export Corporation, for instance, exports medical gauze that meets the following specifications: 24 x 20 meters and 36 x 100 meters. Because of cut-throat competition and price-slashing, export prices fell from \$13.35 FOB to \$9 FOB. Losses in this case alone amount to \$4,434,500. The root of the problem is an overly decentralized foreign trade management system and such shortcomings as fiscal and foreign exchange equal contracting. Under these circumstances, it is only natural that for the effectiveness of the exchange rate in regulating imports and exports to be drastically diminished.

In addition, foreign trade loss subsidy targets, the development of permit quotas, tariff cuts, the extent to which the foreign exchange regulatory market is open—all this affects the effectiveness of currency devaluation to various degrees. In late 1990 the State Council decided to continue to correct and reform certain problems in the foreign trade system in order to deal with the above issues in a comprehensive way. The decision will have a positive effect.

#### C. Thoughts on Mitigating the Negative Effects of Exchange Rate Adjustments

First, keep exchange rates basically stable. Exchange rates are like a two-edge sword. On the one hand, they boost exports and limit imports. On the other hand, they can cause inflation. Given the present foreign trade situation, the problems caused by currency devaluation are becoming more and more serious by the day. In coastal areas that seek to begin and send the production process on the international market by importing raw materials and exporting finished products, in particular, currency devaluation is becoming less and less effective, hemmed in by a variety of factors. After weighing the pros and cons against this backdrop, we think the macroeconomic policy in the near term should be to stabilize

exchange rates. Although this may mean that the renminbi would remain overvalued, the profit-loss mechanism of current foreign trade contract enterprises, among other things, objectively requires a difference of between 15 and 25 percent between the exchange rate listed and exchange rate negotiated. Provided we stick to the "double-tightening" policy at home and do everything to stabilize commodity prices, a drop in market prices would help bring out the positive results of currency devaluation, thereby lessening the trickle-down effects of devaluation on prices at home.

Second, set up a foreign exchange regulatory fund to prevent prices on the foreign exchange regulatory market from dropping excessively. The level of prices on the foreign exchange regulatory market affects not only the ability of export traders to make good losses on the export front, but also the effectiveness of the state in regulating, coordinating, and utilizing foreign exchange. Extrapolating from current prices on the foreign exchange regulatory market, the break-even point for exporting and earning foreign exchange in Shanghai is 5.43 yuan to one dollar. In 1990, however, the average cost of earning foreign exchange after tax was already 5.75 yuan/dollar. The excessively low prices of regulating foreign exchange have put foreign trade departments, enterprises funded by the three capital sources, and industrial enterprises in a squeeze. It is proposed that the central bank take up the problem itself by, first, setting up a foreign exchange regulatory fund to procure a quantity of regulatory foreign exchange to stabilize prices; second, relaxing foreign exchange controls as appropriate and allowing private individuals to buy some foreign exchange for designated uses in order to stimulate the demand for foreign exchange; and third, advancing the import of raw materials and technological transformation items that must be imported so as to use foreign exchange properly sooner.

Third, improve the domestic procurement price management of export commodities. In the wake of exchange rate adjustments, an important part of foreign trade price management is looking for a way to prevent enterprises that produce exports from taking advantage of the adjustment to raise commodity delivery prices, thereby triggering price increases all over the nation. Since 1979, the exchange rate of renminbi has been adjusted nine times. Yet the adjustments have only had limited effects largely because of rising procurement prices for exports. Procurement prices have been rising because domestic price reformers overlooked to harmonize the prices on the two markets, resulting in a return to the old price ratios on the domestic market. Our comparative advantage on the international market was wiped out and was even replaced by a disadvantage. Another important factor behind rising procurement prices is the easing of price control by foreign trade enterprises in the wake of the delegation of the foreign trade authority. Given the fact that the procurement system still plays the principal role in the present export commodity management system, it is suggested procurement price management continue to feature some

administrative tools: 1) draw up a new export price management catalog based on and compatible with the management catalog of the three categories of export commodities. In the case of commodities that are both exported and sold domestically, we must consider the proportion of exports and the profit margin of exporting based on the shares of domestic sales and exports when we adjust domestic prices. 2) Figure out the "shadow prices" for the procurement of export commodities using "real effective exchange rate" as a way of tightening the management of procurement controls. That is, determine the foreign trade break-even point for a commodity whose buying and selling has been deregulated and whose price is set by enterprises in the following way: Export selling price  $\times$  exchange rate + export drawbacks + loss subsidy + regulatory foreign exchange subsidies. Furthermore, in accordance with the principle "same quality, same price, irrespective of whether a commodity is sold domestically or exported," establish "price differentials between domestic and foreign sales." Make known the ability of both industry and trade to handle the price differentials. Inspire the two parties to work hard together to keep procurement prices largely stable. 3) In the case of a number of commodities in short supply on the domestic market and with little supply elasticity, such as certain minerals and rare Chinese herbal medicines, the export procurement system should be strictly enforced to stabilize the sources of the merchandise as well as procurement prices. 4) Set maximum procurement prices and minimum protection prices for a number of agricultural byproducts exported in large quantities. Diligently nurture a market and create a price regulation fund. Popularize the contract price and avoid excessive price fluctuations.

Fourth, improve the unification and coordination of export prices. Following the adjustment of the exchange rate, foreign trade prices began to fluctuate. With localities giving all-out financial backing, the conditions are ripe for a trade war among the various ports. It is proposed that: 1) Properly centralize the authority to trade with foreign nations. Totally eliminate cut-throat competition and price-slashing. Present a united front to the outside world. Except for commodities in Category 1, the authority to export several major commodities in categories 2 and 3 should be concentrated in the hands of the state. No other units should be allowed to meddle in their trading in order to prevent an outflow of profits. 2) Centralize and narrow the scope of operations of the various foreign trade companies. Redefine the commodities each company specializes in or has a monopoly on. Duplicated trading should be rigorously limited. (It is proposed that customs deny drawbacks for any export commodity outside the scope of operations.) By adjusting the scope of operations of foreign trade companies and through monopolistic trading, we should push for higher selling prices provided this does not increase the total volume. 3) In the case of certain essential and sensitive commodities where a trade war might readily break out, we must work out a nation-wide

unified cost of earning foreign exchange and set a minimum selling price. 4) Broaden and strengthen the coordinating and management functions of the export chamber of commerce. Under the present circumstances, we do not think the export chamber of commerce should be an appendage of some specialized foreign trade corporations but an organ of administrative authority that coordinates the various ports so that they present a united front to the outside world and charge uniform prices. (The chamber of commerce and the specialized foreign trade corporation may be two separate organizations led by the same group of people.) Companies that engage in price-slashing and cutthroat competition should be severely punished. Companies that export at high prices and earn large amounts of foreign exchange should be rewarded when it comes to deciding how large a share of foreign exchange they should be allowed to retain as well as awarding funds to ensure stable foreign exchange earnings for the state.

Fifth, reform the foreign-exchange using system and improve its effectiveness. Within a specified period of time, a foreign trade deficit of an appropriate magnitude is nothing to worry about. The key is how effectively foreign exchange is being used. If it is used ineffectively, why bother to export at high cost? If we import the wrong kind of stuff, fail to improve the capital mix, increase our ability to earn foreign exchange, or correct the imbalance in international payments, and continue to adjust exchange rate as a means of "encouraging exports and limiting exports," we will still be no closer to resolving the irrationalities in the import and export mixes than we are today. Accordingly, we must put an end to the present separation between the earning of foreign exchange and its utilization, set up a competitive application system for the use of foreign exchange, introduce a foreign exchange utilization responsibility system to compel enterprises to use foreign exchange judiciously and be mindful of efficiency. Meanwhile, we should continue to open up the foreign exchange regulatory market, further reduce the proportion of planned foreign exchange utilized, and increase pressure on foreign exchange-using enterprises. Whoever uses foreign exchange should be responsible for making good the losses.

Sixth, apply tools of economic leverage comprehensively in a coordinated way to regulate foreign exchange. A variety of tools of economic leverage, including planning, taxation, prices, the budget, credit, interest rates, and exchange rates, should be used comprehensively. Optimize the export mix. Balance trade incomes and expenditures in order to work out the best configuration of the earning of foreign exchange and the effectiveness of foreign exchange utilization. Never can we isolate foreign exchange adjustments as the only means of balancing international payments. The fact of the matter is that prices, credit, and taxes are even more flexible and more directly effective as a tool of regulating international trade. Besides, the comprehensive application of legal and administrative tools is something that economic tools like exchange rates cannot replace.

## LABOR

### Enterprise Employees Lack Initiative

91CE0584A Shanghai SHEHUI [SOCIETY] in Chinese  
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[Article by Cao Xiaofeng (2580 2556 1496), Zhao Zixiang (6392 1311 4382): "An Attitude of Inertia—A Brief Analysis of the Causes of Enterprise Employees' Low Work Initiative"]

[Text] There is no doubt that China's reform, which began with reform of the rural economic system and continued with reform of the urban economic system, has made great accomplishments. It also cannot be denied that low economic efficiency is a serious problem hindering China's economic growth. In the last two years, in particular, enterprises' economic efficiency has deteriorated steadily, and a variety of crises have appeared in economic operations.

Low economic efficiency has certainly been constrained by economic mechanisms and such economic factors as energy, communications, capital, technology, the pricing system, the industrial structure, and contradictions in supply and demand. However, at the same time non-economic factors have had a very big impact on economic growth. Thus, when analyzing economic efficiency, one must investigate the broader social climate. This article does not intend to touch on more political and social factors, but only to make a brief analysis from the perspective of social psychology.

Enterprise employees' positive feelings about labor are an extremely important factor that influences enterprise efficiency and economic growth. It not only directly constrains the development and improvement of a worker's existing ability, but also indirectly constrains the potential use of finances and materiel. Large- and medium-sized state enterprises are the lifeline of China's economy. These large- and medium-sized enterprises have taken in thousands of employees. Without a doubt, their attitudes and morale affect the direction and future of China's economic growth. In the past two years, in conjunction with relevant departments, we have conducted a series of surveys on employees' social attitudes. The results have given us cause to reflect deeply on them. There is a universal, powerful attitude of inertia in large- and medium-sized state enterprises. This has become a social problem that cannot be ignored.

Enterprise managers' attitude of inertia is exhibited primarily as hesitation, occasioned by anxiety about political changes. Enterprise employees' attitude of inertia is exhibited primarily in the following ways:

**First, enterprise employees' position as a group has slipped, engendering general "feelings of loss."** Since 1984, when China reformed the enterprise administrative system, focusing on the plant manager and the management contract responsibility system, most enterprises have implemented a variety of contract hiring

responsibility systems. The implementation of contract hiring responsibility systems has separated enterprise ownership rights and managerial rights. The relationship of responsibility, rights, and benefits between owners and managers was stipulated in the form of a contract. This created a new mechanism for distributing benefits between the state, the collective, and the individual. For a time these reforms greatly improved enterprises' vitality and fully mobilized the initiative of the plant manager, the management, and enterprises' management representatives as a whole. However, because the responsibility system was vague and open to interpretation, plant managers and management's jurisdiction tended to grow unrestrainedly. In some enterprises, plant managers and management not only had the right to make policy decisions on managing enterprise output, but they also had many more rights, such as the right to decide the distribution of benefits, personnel transfers, and hiring and firing. In this way, the ranks of the worker class that had been integrated changed. On the one hand there were the plant managers and management with a variety of rights, and on the other hand there were the workers, who passively obeyed. The workers were objectively excluded from enterprise management, and in fact they lost their position as masters of the enterprise. At the same time, the direction of public opinion became seriously slanted, excessively propagandizing the position and role of plant managers and management. The terms "entrepreneurs," "excellent entrepreneurs," and "star entrepreneurs" began to be used, but the broad masses of workers' position and role in reform did not receive the appropriate affirmation or full evaluation. Yet in fact, the efficiency of some enterprises was not really due to the administrative abilities of plant managers or management, but was related in a major way to enterprises' industrial quality and product structure. Even some so-called "entrepreneurs" were "models" that had been created by the "build up" method. This does not even mention the fact that enterprise operations cannot be separated from the efforts of the masses of employees fighting at their posts, especially the efforts of those on the first line of production. Employees' loss of position and the slant in public opinion guidance created a large discrepancy with the traditional idea that the working class is the master of the enterprise and the masses of the people are the creators of history. Hence the feeling among employees was generally that they had lost their position as master; participation in management and politics generally declined; and the sense of responsibility that "the plant is a family" and "for the glory of the plant" was clearly weakened. Our survey of 10 large- and medium-sized enterprises in Liaoning showed that the overwhelming majority of employees did not see themselves as masters of the enterprises, but only as ordinary labor; waste and slowdowns within the enterprises were universal.

**Second, increases in enterprise employees' gross incomes were not high, creating a "feeling of relative deprivation."**

It should be acknowledged that since reform and opening up began, workers' quality of life has clearly improved,

and their living standards have definitely risen. But people's "living standards" have risen with it. When workers compare themselves with others of the same or different class, they feel that their own living standard has seen a relative decline.

According to a survey of the incomes of plant managers and management in contract hiring enterprises in Shenyang, a comparison of incomes at different levels showed that incomes of managers in most state enterprises, especially large- and medium-sized state enterprises, were not much different from workers' incomes. In contracting enterprises, the gap between the two was less than three times the state's stipulated amount. In hiring enterprises, the gap between the two was also less than five to seven times the state's stipulated amount. However, the gap in some collectively owned enterprises was as much as 10 to 17 times the stipulated amount. However, since enterprise distribution is not very open to scrutiny, enterprise employees do not have much right to participate in decisions concerning distribution. Furthermore, plant managers and management in some enterprises who "feather their own nests" through such benefits as housing have objectively created public opinion that holds that "nine out of 10 plant managers enrich themselves at others' expense." This has caused enterprise employees to be disinclined and antagonistic towards contracting managers.

Comparing incomes at the same level, the distance in the income gap is clearly increasing. According to a survey in Yingkoushi, the self-reported average incomes of proprietors of private businesses was 14 times workers' average incomes. The self-reported average incomes of individual laborers was seven times workers' average income. If the highest incomes or real incomes of proprietors of private businesses and individual laborers is used in the calculation, the difference is 10-odd fold. The issue is not just that the income gap is increasing, but also that some proprietors of private businesses and individual businesses enjoy the results of others' uncompensated labor through various illegal means and covert exploitation.

According to the theory of fairness, an employee's positive feelings are influenced not just by his so-called absolute remuneration (real income), but also by his so-called relative remuneration (the ratio of his income to others' incomes). Consciously or unconsciously, each person always makes social and historical comparisons between the labor he expends and the remuneration he receives and the labor others expend and the remuneration they receive. If he feels that the comparison is reasonable and normal, then he will be satisfied and work hard. If the opposite is true, it can create feelings of unfairness and dampen a worker's initiative. The loopholes in the contract hiring responsibility system and large- and medium-sized state enterprises' incomplete entry into the market have now created inequalities in competitive opportunity and in distribution. After comparing enterprise employees at the same and different levels, the conclusion was reached that the contract

hiring responsibility system "enriched those who contract and fattened those who do business for themselves, but impoverished those who labor." Thus, although enterprise employees' living standards showed definite improvement when compared historically with their past living standards, they "felt a relative deprivation" when their standards were compared with those of other social classes. It is this "feeling of deprivation" that sets off the habit of "serving a meal with meat, then laying down the chopsticks and cursing." This is both a usual and a normal social phenomenon.

**Third, the social value system is confused, so that enterprise employees feel that "there is nothing to rely on."**

The goal of reform and opening up was undoubtedly to build socialism with Chinese characteristics. Yet in implementing concrete policies, not only was ideological and political work weakened, but objectively speaking there was also a definite tendency to overemphasize the mechanical role of material benefits. As a corrective to ignoring the laborer's material benefits and the demands of existence, the practice of fully accounting for the laborer's material needs, and hence adopting definite material incentives, is beyond reproach. Yet the laborer in socialist society is not an "economic man" whose goal is the maximum satisfaction of his individual benefits. The socialist laborer not only has material needs, but also an abundance of spiritual needs, such as being respected and trusted, realizing his own self-worth, and developing his individual talents and abilities. Thus mobilizing enterprise employees' initiative requires not only material incentives, but also spiritual incentives. Yet the rapid growth of pragmatism, the worship of money, and individualism brought about by excessively emphasizing the mechanism of material benefits generated an enormous contradiction with public opinion's atmosphere of the spirit of contribution, the spirit of creativity, and the Communist ideals created in over 30 years of socialist construction. These ideals clashed with reality. The dissemination of theory and the implementation of policy parted ways, and in the conflict of the two ideas the working class lost their bearings and their feeling of spiritual enrichment. Thus, everywhere there is the strange phenomenon of "If you do not give rewards, people will not work, and if you give rewards, people still will not work."

**Fourth, the value of expectations for political reorganization and building honest governments is fairly high, and there is a general "feeling of doubt" among enterprise employees.**

Enterprise employees have long detested such incorrect styles as using one's position for personal gain; corruption; enforcing the law for criminal purposes; and even perverting justice to obtain bribes. They made vigorous demands that corruption be punished. This hope was so strong that they still have feelings of anxiety, even though the party Central Committee has stressed good government and made some accomplishments since the

Fourth Plenary Session of the 11th CPC Central Committee. According to a survey of employees' ideological work situation in eight enterprises in Shenyang City, employees in general feel that building an honest government is popular, but they are also concerned that governments "will not dare take on hard tasks, but will make a fine start and a poor finish." This feeling of doubt has inhibited enterprise employees' whole-hearted ardor for participating in reform.

Since the Fourth Plenary Session of the 11th CPC Central Committee, the party Central Committee has repeatedly stressed that they whole-heartedly rely on the worker class. However, employees still think that the policy is being implemented too slowly. Similarly, in the survey of the eight Shenyang City enterprises, employees hoped that "enterprises would not just pay lip service to relying on the worker class, but would really carry it out in their actions." Employees "did not want to be labeled as nominal masters, but should be in the position of the real masters."

In short, they will cry out against injustice and be sad if it is not corrected. Before 1988, there was a very anxious mood to people's grievances and street gossip about participation. In the past two years the general attitude of enterprise employees has been to wait and see; to wait; to be indifferent; or even to be cynical or aloof. This attitude of inertia has to a considerable degree kept enterprise employees' positive feelings about labor in check. This has brought about a general "sag in morale" that has seriously hindered economic operations and enterprise growth.

This attitude of inertia first of all presented two difficult choices for deepening enterprise reform: either continue expanding plant manager and management rights to mobilize the positive nature of those who hire on contract, or expand enterprise employee rights to mobilize employees' positive natures. We think the two can be unified by improving the enterprise contract hiring responsibility system. Our basic thinking is that we should mobilize the positive nature of both enterprise contract hiring managers and employees. We should safeguard both managers' independent, managerial policy-making rights and related benefits, and establish a strong restraining mechanism and a mechanism enabling enterprise employees to participate in management and in distributing benefits within the enterprise. To really improve enterprise employees' positions in enterprises, we should strengthen the rights of organizations that represent staff and workers to supervise the distribution of benefits, as well as their rights to participate in enterprise management's decision making.

Enterprise employees' attitude of inertia has also become a topic for macroeconomically adjusting the distribution of benefits through all strata of society. We approve of this train of thought: open up income grades in all strata of society, use rewards and punishments, and encourage more pay for more work. However, wide gaps between social strata should be avoided. In particular, incomes of



the "high-income strata" should be contained appropriately by improving the tax system channels, so as to balance the benefits between strata.

Enterprise employees' attitude of inertia presents an urgent mission for building an honest government. We should further correct incorrect industrial styles and make legal sanctions against state and public employees' criminal behavior more severe. We should resolutely uphold the struggle with corruption to the end, and thus conform with and encourage the will of the people.

## AGRICULTURE

### Investment, Financial Policies for Rural Development

91CE0563A Beijing *NONGYE JINGJI WENTI*  
[PROBLEMS OF AGRICULTURAL ECONOMY]  
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[Article by the research office of the main branch of China Agricultural Bank: "A Study of Investment Problems, Financial Policies Regarding Developing the Rural Economy"]

[Excerpts] To attain the year 2000's goal of economic development, we must solve the problem of the rural economy at a deeper level to extricate agricultural development from its unstable state, so that agriculture and other industries maintain a coordinated, proportional relationship. We think that the investment policy and certain interrelated policies are an important component part of the agricultural development program; and are an important guarantee for enhancing agriculture's basic position in the the national economy, increasing the input of funds in agriculture, and promoting the sustained, stable, coordinated development of the rural economy. This article studies the problem of rural investment and financial policies from the angle of economic development. On the basis of analyzing the state of rural investment in the Seventh Five-Year Plan period and the estimated supply and demand of rural funds in the Eighth Five-Year Plan period, it analyzes the main contradictions encountered in increasing rural investment and proposes certain policies that should be implemented to solve the problem of rural investment. [passage omitted]

### Analysis of Investment Supply, Demand in Eighth Five-Year Plan

#### A. Determination of Amount of Investment in Rural Economic Development in Eighth Five-Year Plan

1. Demand for agricultural production funds. The initial estimate of the total demand for an increase in agricultural input in the Eighth Five-Year Plan period is 260 billion yuan, of which input in newly added production costs is 180 billion yuan and investment in agricultural fixed assets is 80 billion yuan, so the average input per year is 52 billion yuan. This estimated figure was

deduced by referring to the goals of agricultural development in the Eighth Five-Year Plan period on the basis of the rate of agricultural development and the material consumption of agricultural production the periods of the Sixth and Seventh Five-Year plans. Calculated at the prices in those years, (to calculate the "echo" effect in the size of the rise in prices and the amount of growth of input on the basis of the prices in those years, agriculture's gross output value and its annual average growth were calculated, but this calculation contained parts that were not real and were not historically comparable) in the 10 years from 1979 to 1989 the total output value of agriculture had an annual average "growth" of 14.45 percent, and in the first four years of the Seventh Five-Year Plan period the annual average "growth" was 15.92 percent. Considering that during improvement and rectification price rises are controlled within 10 percent, the gross output value of agricultural production, calculated on the basis of the price rises in those years, in the Eighth Five-Year Plan period will be less than in the previous years, and even less than in the Seventh Five-Year Plan period. Therefore, we predict that agricultural input in the Eighth Five-Year Plan period, in line with an annual average "growth" of agriculture's gross output value calculated on the basis of the prices in those years, and in line with agriculture's material consumption being controlled at the 36 percent level. Based on the actual requirements of agricultural production, in the input of agricultural funds in the Eighth Five-Year Plan period the proportion of input for production costs will not fall, and the input of medium- and long-term funds should increase. The proportion of input of agriculture's fixed assets in agriculture's total output will increase from the Seventh Five-Year Plan period's 28 percent to 30 percent or more. The main reasons for this are: first, increased demand after agricultural development; second, since the Sixth Five-Year Plan, input in agriculture's fixed assets has constantly fallen and there have been too many outstanding accounts; and, third, there have been increasingly serious natural disasters in agriculture, thereby heightening demand in the field of agricultural production.

2. Demand for funds in development of township-town enterprises. In the first four years of the Seventh Five-Year Plan period, township-town enterprises accounted for 29.98 percent of the annual average growth (because the number of enterprises counted is not consistent, there is a certain error here). This extraordinary rate of development was checked in 1989, and in the Eighth Five-Year Plan period the rate will not reach this level. Because to maintain this rate not only must there be corresponding sources of funds but also sufficient sources of materials, the present state of China's materials and energy supply and of market demands makes this rate impossible to maintain. Calculated on the basis of comparing the growth rate of the output value of township-town enterprises with the growth rate of their funds, if the growth rate of the output value of township-town enterprises in the Eighth Five-Year Plan period is controlled within 15 percent, and calculating the growth

rate of their funds at 12 percent, in the Eighth Five-Year Plan period the increased supply and demand input will be 340 billion yuan, an annual average increase of 68 billion yuan. This would be 7 billion yuan more than the actual annual average of 61 billion yuan in the first four years of the Seventh Five-Year Plan period.

3. Demand for commercial funds. In the Eighth Five-Year Plan period, the grain enterprises and the supply and marketing enterprises will have a total demand for an increased funds input of 180 billion yuan, an annual increase of about 40 billion yuan. From a look at the grain enterprises' demand for funds, we see that from 1979 to 1989 the annual average rate of growth in grain enterprise funds was 14.71 percent. Because since 1979 there has been a fairly rapid rise in grain prices, the rate of growth of their funds has also been fairly fast. In the Eighth Five-Year Plan period, with the rate of growth of grain enterprise funds calculated at 8 percent, the total demand for increased funds input will be 80 billion yuan, or 16 billion yuan per year. In the same period, if grain production climbs to a new stage, reaching 450 billion kg, and if the purchased amount of newly added output is calculated at 35 percent, then the total increase in the purchased amount will be 15 billion kg. Calculating the composite price of grain at 0.90 yuan per kg, and referring to empirical data on grain turnover, the newly added funds input will be 12 billion yuan. In the same period, the price adjustment factor will affect the increase in input of purchasing funds, so that it will be less than 30 billion yuan. The needed fixed assets investment and noncommodity funds to meet the increase in the purchased amount will be increased by at least 15 billion yuan in the same period. While commodity funds grow, the funds for settling accounts will grow at a rate of 80 percent of the commodity funds, and even if calculated at 60 percent an increase of 25 billion yuan will be needed. Looking at supply and marketing enterprises, we can see that from 1979 to 1989 the annual average growth of funds for supply and marketing cooperatives was 12.21 percent. Calculating the growth rate in the Eighth Five-Year Plan period at 10 percent, the total increase needed in funds input will be 100 billion yuan, or a yearly average of 20 billion yuan. If in the same period cotton production and reserves are restrained to the 1989 level, there will need to be an increase of 20 billion yuan in purchase and reserve funds. In the Seventh Five-Year Plan period, the annual average growth in the sales of agricultural means of production by supply and marketing cooperatives was 22.2 percent. Given the factor of a fairly large rise in the prices of agricultural means of production in this period, even if the annual average growth is calculated at 12 percent, in the Eighth Five-Year Plan period the sales of agricultural means of production will increase by 35 billion yuan. Calculating the sales funds rate on the basis of the Seventh Five-Year Plan period, it is estimated that the increase in the funds input for management and reserves of agricultural means of production in the Eighth Five-Year Plan period will be 20 billion yuan. It is estimated that an increase of 40 billion yuan in funds will be

needed for sales of the means of production by supply and marketing cooperatives.

Based upon the above forecasts and analyses, in the Eighth Five-Year Plan period agriculture, township-town enterprises, and rural commerce will need a total increase in funds input of 780 billion yuan. The general thinking is that there must be a gradual increase in agricultural input, particularly in the input of agricultural fixed assets, to control in an appropriate measure township-town enterprise input, stabilize commercial input, and promote the sustained, stable, coordinated development of the rural economy.

#### *B. Supply of Funds for Development of Rural Economy in Eighth Five-Year Plan*

In the Eighth Five-Year Plan period, the amount of funds each funds-supply channel can raise, and what links the funds will be put into, will be determined by the rural investment policy in this period. In accordance with the annual increase in the Eighth Five-Year Plan period of expenditure for financial support of agriculture, and with the idea that the expenditure will rise proportionately, as well the actual need in the rural areas for water conservancy construction and the harnessing of large rivers, the financial input in agricultural fixed assets should be about 40 billion yuan, a proportion of 15.4 percent of agriculture's total input, and three percentage points higher than in the Seventh Five-Year Plan period but still five percentage points lower than in the Sixth Five-Year Plan period. The growth rate in the raising of funds by rural financial organizations cannot be maintained at the 20 percent annual average rate of growth in the Seventh Five-Year Plan period. If the annual average growth is calculated at 12 percent, in the Eighth Five-Year Plan period rural banks and rural credit cooperatives can raise and loan 260 billion yuan, of which 145 billion will be raised and loaned by agricultural banks and 115 billion by credit cooperatives, an annual average increase of 52 billion yuan. Calculating the funds growth of grain, marketing, and other commercial enterprises in the Eighth Five-Year Plan period at the 7.8 percent of the Seventh Five-Year Plan period, the supply of funds can be increased by 42 billion yuan. Of this amount, the funds of grain enterprises would increase by 22 billion yuan and the funds of supply and marketing enterprises by 20 billion yuan. The increase in funds of township-town enterprises, calculated on the basis of the 11.9 percent growth in the Seventh Five-Year Plan period, in the Eighth Five-Year Plan period could be 80 billion yuan. Calculating on the basis of the increased funds input by peasants and by agricultural collective production units in the Seventh Five-Year Plan period, in the Eighth Five-Year Plan period the increased input by the peasants and the agricultural collective production units could be 180 billion yuan. It is estimated that the abovementioned funds channels in the Eighth Five-Year Plan period could increase the sources of funds by about 600 billion yuan, and in comparison with the predicted demand for fund the total shortfall in funds would be about 180 billion yuan.

In line with the different investment functions of different channels that supply funds, the specific investment structure is initially calculated to be: for agricultural investment, there will be newly-added finances during the Eighth Five-Year Plan period; within budget, capital construction allocations of about 40 billion yuan, input by agricultural production units and agricultural households will be 180 billion yuan, and credit input will be 40 billion yuan. In rural circulation, financial input and its embodiment in accumulation by grain enterprises will be 22 billion yuan, and a credit input of 15 billion yuan will be needed. In township-town enterprise investment, the enterprises' own input will be 80 billion yuan, and they will need a credit input of 2.2 billion yuan; the credit input could be 95 billion yuan and the funds shortfall 125 billion yuan. Thus, the funds input of the respective investment channels will be: finance 55 billion yuan, credit 280 billion yuan, agricultural household and agricultural production unit input 200 billion yuan, commercial enterprise input 42 billion yuan and township-town enterprise input 80 billion yuan.

With regard to the fact that the estimate of the demand and supply of funds only involves several main industrial departments in the rural economy, in reality it is difficult to include all of them. This estimate is no more than a generalized, imprecise description. This is not only because of the fairly large errors in the estimate itself; the main reason is that there are many changeable factors affecting the state of equilibrium in the supply and demand of funds. Some conclusions can be drawn about the demand and supply of funds during the development of the rural economy: (1) The contradiction in the total amount of funds input during the development of agriculture is not prominent. The key to the problem lies in how to stabilize the growth of the peasants' agricultural input and improve the agricultural investment structure, including the structure of the agricultural production costs input and the agricultural basic facilities construction input; the structure of grain, cotton, edible oil production input; as well as the structure of other economic crops input. These are the two problems that must be solved in the Eighth Five-Year Plan period. (2) For the funds input in the rural circulation domain, particularly the funds needed for the sales of agricultural and sideline products and for the management and storage of the agricultural means of production, the greater part must depend on financial and state banks; commercial operation units do not have such an enormous funds supply capacity. In the present financially hard-pressed situation, the state's burden is heavier, and the Central Bank's monetary and credit policies have an extremely important effect on the movement of the agricultural circulation link. (3) Because various factors determine that the rate of development of township-town enterprises cannot be excessively low, there is a demand for a guaranteed supply of funds, but the funds shortfall is quite large. Under the circumstances in which the financial organizations cannot provide funds to maintain a minimum rate of development

of township-town enterprises, the township-town enterprises must still expand loans and individual investment to further develop production. The result is bound to affect the funds raising by financial organizations, and go on to cause a redistribution of rural funds.

#### **Principal Contradictions Facing Investment During Eighth Five-Year Plan of Development of Rural Economy.**

The solutions to the series of existing problems in rural investment in the Eighth Five-Year Plan period, in order to increase the funds for agricultural production and circulation, still face many contradictions. The content of these contradictions is quite complex: both the contradiction between total demand and total supply, and the structural contradiction; both the price, financial, and credit systems contradictions and the contradiction between urban and rural areas, between industry and agriculture. If we do not recognize and resolve these contradictions, then in the Eighth Five-Year Plan period, and in an even longer period in the future, the achievement of the state's goals for agricultural development and the state's implementation of its rural economic policy will be directly affected.

1. The strategy, which has been pursued for a long time, of tilting toward the development of heavy industry still exerts a fairly large restraint on the increase of agricultural input. Since the Third Plenary Session of the 11th CPC Central Committee, although circumstances have changed, there has been no switch to a strategy of coordinated development of industry and agriculture. In the first four years of the Seventh Five-Year Plan period, the scale of investment in industrial capital construction was 154.3 billion yuan, and the scale of investment in agriculture was only 17.3 billion yuan, an industry-agriculture investment ratio of 8.9:1. In the same period the ratio of industrial gross output value to agricultural gross output value was 3.1:1. Comparison of agricultural capital construction investment and agricultural gross output value is highly unsuitable. The gradually narrowing price scissors differential between industrial and agricultural production in the Sixth Five-Year Plan period has tended to widen in recent years. The policy of low prices and low returns on agricultural products is not only detrimental to the development of agriculture itself; the passivity and hesitancy of agricultural production seriously restrain the development of industry. If the strategy of tilting toward industrial development in investment and prices is not suitably adjusted, the agricultural question will always be an obstacle to the sustained, stable, coordinated development of the national economy.

The industrial structure of the national economy that was formed in the past in the Eighth Five-Year Plan period will objectively adjust and influence the distribution of funds. The funds reserve structure, with its powerful inertia, will continue to require an expansion of the original setup. Therefore, whether in the Eighth Five-Year Plan period there can be a sustained, stable,

coordinated development of the rural economy, whether agriculture as a long-term strategic task can be put in first place in work, and whether a rational disposition of investment can be achieved fundamentally depends on an adjustment of the national economic structure.

2. The contradiction in agriculture between the need for a suitable centralization of investment and the need for a suitable decentralization of the supply and use of investment. China's agricultural investment requires a suitable centralization. This is determined by the rural economy's transformation to fairly large-scale commodity production. The key to agriculture's ascent to a new stage is the improvement of its overall production capability. Medium- and long-term investment in agriculture is a weak link in agricultural development. Under the circumstances in which agriculture now gives priority to household decentralized operations, it is difficult for the households to undertake the heavy task of engaging in farmland capital construction and of enhancing the reserve strength for agricultural development. The further development of agriculture objectively demands the concentration of funds to carry out comprehensive development. Moreover, because China's total amount of agricultural investment is insufficient and there is a large gap between supply and demand, we also need to centralize funds, unify plans, make overall arrangements, and effect focused utilization in order to display all the functions of agricultural investment. China's 40 years of positive and negative experiences and lessons in agricultural investment tell us: Proceeding from the basic demand in agriculture for scale of operations and economic returns in using agricultural funds, we must invest in line with the principle of overall planning and arrangements, unified management, and stress on results, and must not allow each person to do things in his own way and must not allow decentralized input. Whether it is investment by the state and the collective or investment by the peasant, overall, they are all decentralized; this was one of the important factors in the decline of investment in agriculture's fixed assets in the Seventh Five-Year Plan period. Adequate attention must be drawn to the question of whether we can resolve the contradiction in agricultural investment of the need for suitable centralization and the present decentralization of investment supply and utilization; and to the related question of whether we can open up the agricultural investment domain in the future, whether there can be an overall optimization of investment returns, and whether agriculture's reserve strength can be enhanced.

3. The contradiction between the finance and credit management system and the increase in agricultural input. The general characteristic now of China's finance and credit management system is that it is restricted to a designated sphere and is sealed off. The main drawback of this system is that it enhances partial interests and exacerbates the imbalance in agricultural investment among regions. The central financial administration's capability for adjusting surpluses and deficiencies in

funds and for supporting the state's focus on developing industries has, for the most part, been weakened, and the local financial administration's capability has been strengthened. In particular, there has been a rapid growth in outside-budget funds, but they are mainly used for industry, and not much is used for agriculture. After the localities were made responsible for completion of financial tasks, the regions in which agriculture was made primary, because agriculture's overall interests were on a low level, could not supply much revenue for the financial administration and finances often became very tight. But these were precisely the localities that needed more funds for agricultural production and in which the financial task of supporting agriculture was very heavy. In regions in which industry and township-town enterprises are developed, finances are in relatively loose and comfortable state and there is the capability for undertaking the task of agricultural input. But the focus of these regions' development is not agriculture, and the input of funds in agriculture is relatively small. It is precisely because of the difference in industrial development that the distribution of financial administration funds in the various regions is unbalanced. The existing financial system also restricts the adjustment of surpluses and deficiencies in funds, causing between agricultural production regions and nonagricultural regions an inappropriate amount of income and an inappropriate stress on the task of supporting agriculture.

The existing credit and funds management system stresses that each region should seek by itself a balance in its funds, and in addition restricts local interests, thereby restricting the flow of funds. Under these circumstances the Central Bank cannot adjust the finances and credits between industry and agriculture or between agricultural production regions and nonagricultural regions well enough, so that it becomes difficult to mitigate the contradiction of imbalance of credit and funds between regions.

4. The contradiction in rural funds between storage and wasteful use. Generally speaking, in the rural areas now the contradiction between supply and demand in funds is extremely prominent, and it is estimated that in the Eighth Five-Year Plan period the gap in rural funds between supply and demand will be more than 100 billion yuan. Even if this is the case, in the process of using rural funds there will be serious loss and waste. In 1989 the Agricultural Bank surveyed more than 20,000 grain enterprises in 30 provinces, autonomous regions, and municipalities directly under the central government. According to its statistics, a total of 2.038 billion yuan had been misappropriated. Because the property rights relationship is vague and responsibilities are unclear, the problem of loss and waste of funds in township-town enterprises is quite prominent. During their process of development, many township-town enterprises blindly started up and were not good at managing funds. According to statistics, in 1989 a total of 790,000 township-village enterprises lost money, the total loss being 3.79 billion yuan.

5. The contradiction between the demand in national economic development for an increased input by all quarters and the current monetary policy's restraint on credit and funds that tilt toward agriculture. It should be said that China's Agricultural Bank and its rural credit cooperatives have already played a positive role in the input of rural funds. However, looking at the financial policy of the country as a whole, we see that it still does not reflect a tilt in credit toward agriculture. First, there is a bias against agriculture in the Central Bank's allocation of credit. From 1985 to 1989, the annual average rate of growth of Agricultural Bank loans was 15.95 percent, 20.4 percent lower than that of State Bank loans. Second, the Central Bank's reproduction loans and the Agriculture Bank's support-agriculture loans do not form a complete set in time limit and number. The loans for purchasing agricultural and sideline products extended by the Agricultural Bank are of a state policy nature. The funds necessary to make up the disparity should be arranged by the Central Bank, but at the present time the funds provided by the Central Bank do not meet the need, and the time limits for their utilization are not consistent. Third, there is the contradiction between the need for the Agricultural Bank and the rural credit cooperatives to exist on their own and the low-interest, high-risk nature of agricultural loans. Fourth, the state's financial administration and the Central Bank have not properly compensated the reduction of income and loss of funds borne by loans of a rural policy nature.

In the Eighth Five-Year Plan period, the trend of supply and demand in rural investment and the contradictions faced by this investment show that, for a period of time in the future, in rural investment we should, as the basis for the smooth relationship and implementation of relevant policies, increase the total amount, adjust the structure, improve returns, and, focusing on the existing problems in current investment, adopt a corresponding investment policy. We should: first, adopt a strategy of overall development in rural investment; second, enhance the state's funds input for rural capital construction; third, spur the enthusiasm of local governments for increasing agricultural investment; fourth, restore the Agricultural Bank's function of unifying the management of support-agriculture funds; fifth, give play to the backbone role of township-village collective economy in agricultural investment; sixth, enhance the management of township-town enterprise investment; seventh, perfect the management policy for rural commercial enterprise funds; and eighth, adjust the monetary policy and promote a tilt of credit and funds toward agriculture.

**Rise in Agricultural Tax, Payment in Kind Panned**  
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[Article by Tang Renjian (0781 0088 0256), Wang Zhonghai (3769 1813 3189): "Increases in the Agricultural Tax and Collection of Taxes in Kind Is a Counterproductive Policy Choice"]

[Text] Following a several year standstill since 1989, grain output has finally scored spectacular growth, peasant income has also risen greatly, and the peasants' tax burdens have remained light. Although the nominal tax rate (the ratio between the tax yield that should be collected and the calculated tax yield) remained at the 11 percent fixed in 1961, the actual tax rate (the ratio between the yield that should be collected and the actual yield) declined year by year to the only 3 percent that it is today. For this reason, many comrades have proposed readjusting the agricultural tax and the collection of taxes in kind. Although specific ideas differ, they show several trends overall as follows: (1) Increasing the actual tax rate from 3 to between 5 and 6 percent; (2) full collection of taxes in kind for both the new tax increase and the existing portion of taxes (about one-half) that is now collected in the form of money; (3) institution of either grain procurement at negotiated prices, or removal of restrictions on market procurement of grain sold to the state to satisfy fixed procurement quotas apart from taxes; and (4) blanketing into the tax collection system the various social burdens that peasants currently bear, the national treasury rebating payments to township and town government financial authorities. Some comrades feel the foregoing ideas offer the following advantages: (1) They help the national treasury increase revenues while reducing expenditures; (2) they help guarantee the state a steady source of commodity grain funds; (3) they help even out grain prices and the correlation between procurement and sales; (4) not only do they not increase peasants' burdens (since restrictions will be removed on grain procurement prices other than for tax purposes simultaneous with the rise in taxes), but they help reduce the peasants' tax burdens, because they bring the peasant's social burdens within the tax collection system, thereby helping legalize and consolidate the peasant's burdens. In short, without any increase in government treasury or peasant expenditures, the relationship between the state and the peasants, and between collectives and the peasants can be straightened out and simplified.

After conscientious study over and over again, we believe prospects for the above ideas are good. However, except for the definite advantage of reducing burdens on the national treasury and ensuring a consistent supply of commodity grain, the other results cannot be realized. Specifically, they will not reduce, but rather will add to the peasants' burdens, and will not improve but rather they will worsen relations among the peasants, the state and collectives, thereby hurting the sustained, consistent, and coordinated development of the rural economy, and social stability. Therefore, we believe that the agricultural tax should not be increased nor should taxation in kind be revived during the Eighth Five-Year Plan. Our specific reasons are as follows:

1. Bumper grain harvests have been brought in since 1989, but this does not mean that a whole series of deeply rooted problems restricting grain production

have been solved, nor does it mean that peasants' comparative returns from the growing of grain have increased.

In 1989, the country's gross output of grain revived to the level of 1984, and in 1990 gross grain output reached 420 billion kilograms in an approximately 15 billion kilogram increase over 1989. This is truly a heartening situation. Nevertheless, it does not mean a solution to deeply rooted problems with investment (particularly investment by governments at various levels), grain prices, the procurement and marketing system, and uncoordinated behind the scenes interest relationships between industry and agriculture, and between cities and the countryside. Although the ratio between the speed of development of industry and agriculture has tended to become more equitable at 2.7 to 1 since the 1988 implementation of a policy for improving the economic environment and rectifying the economic order, still, the structure of investment, which is of decisive importance in increasing the reserve strength of agriculture, remains inequitable. This includes investment in the capital construction of agriculture, which despite an increase in absolute figures in recent years, the state deciding in 1990 on a further 1 billion yuan increase in the investment in the capital construction of agriculture, is nevertheless still only 3.1 percent of total national investment in capital construction. On the basis of our comparative study of the amount of investment in industry and agriculture of various countries of the world in which GNP runs between \$300 and \$1,000 per capita, a more equitable ratio of investment between industry and agriculture during the period of industrialization should be 4 to 1. In China however, it was 10.7 to 1 from 1979 through 1989, including 17.1 to 1 in 1988 and 20.4 to 1 in 1989. This is too great a difference. Government funds for the support of agriculture also increased fairly rapidly in absolute figure terms during the past several years reaching 19.907 billion yuan in 1989. Nevertheless, this was still only slightly more than the 1979 level, and was a decline from 13.70 percent in 1979 to 6.6 percent as a percentage of government expenditures for the country as a whole. Looked at in terms of grain prices, the price ratio between grain and fertilizer, which best reflects comparative prices of industrial and agricultural products, and comparative returns from grain declined each year following 1984. In 1989, the ratio was 1 to 1.05 (i.e., the exchange of 1 jin of grain for 1.05 jin of chemical fertilizer), which was less than the 1978 pre-reform 1 to 1.14 ratio. As a result of the increase in grain fixed procurement prices in 1990, plus the universal difficulty selling grain, negotiated procurement prices particularly market prices fell drastically, while prices of the agricultural means of production such as fertilizer remained high. The ratio between grain and fertilizer will, no doubt, continue to decline. For this reason, as well as problems that have appeared in the flow of numerous other agricultural by-products, overall a substantial number of places will experience an increase in production with no increase in income. Statistics from the State Statistical Bureau show a 1.6

percent decline in net per capita income, and a 3.3 percent decline in per capita cash income after deducting for price rises. During the past 10 years of reform, this had never happened. After deducting for price rises, per capita peasant actual cash income continued to decline from January through September 1990, and a corresponding 4.3 percent decline in money available for daily living expenses occurred. Per capita investment in production declined 5.9 percent. As a result of the damage to agriculture that low grain prices has caused, indications point to a reduction in the area planted to winter grain and a serious shortage of fertilizer for winter sowing.

2. Although the peasants have made many material gains since the initiation of reforms in 1979, their total income and their standard of living are still very low. Correct assessment of the peasant's wealth forms the foundation and premise on which we draw up rural policies.

Between 1978 and 1989, peasant per capita net income increased from 134 to 602 yuan in an annual 14.6 percent increase (before deductions for price rises). This was a fairly rapid rate. Nevertheless, it must be strongly noted, first, that after 1985 the speed of peasant income growth slowed markedly. It increased 17.7 percent between 1978 and 1984, but it fell to 10.8 percent between 1985 and 1989. Second, as was said above, peasants real income, cash income, and expenditures for production and living expenses have all shown negative growth since 1978. Third, great differences in peasant per capita income exist between one area and another and between one peasant household and another. In most areas, it is only sufficient to provide food and clothing. Statistics show the following breakdown of per capita income by peasant household: In 1989, 4.7 percent of households had a per capita income of 200 yuan or less; 10.9 percent had a per capita income of between 200 and 300 yuan; 15.6 percent had a per capita income of between 300 and 400 yuan; 15.6 percent had a per capita income of between 400 and 500 yuan; and 53.2 percent had a per capita income of 500 yuan or more. Today, more than 40 million rural people still do not have sufficient food and clothing. Fourth, between 1979 and 1984, the gap between city and countryside resident's per capita income and income available for consumption narrowed with each passing year. After 1985, however, it widened with each passing year, expanding to 1 to 2.7 in 1989 in a substantial reversion to the 1978 level. Clearly, a "double reversion" has taken place today in the price ratio between industrial and agricultural products (such as the price ratio between grain and fertilizer), and society and countryside residents' income differential. These two signals merit a high degree of serious attention. In addition, the "cash content" of city and town resident's nominal income is far higher than for the peasants. The real income of city and town residents includes not only nominal monetary income, but also a large amount of hidden income such as large subsidies for government and enterprise housing, transportation, medical treatment, and food. At the same

time, statistics show that a substantial portion of peasants' per capita net income, i.e., real income, (approximately 20 percent) goes for the purchase of fixed assets for production, and for additional production and operating expenses. Not all of it is available to pay living expenses. Thus, the difference between the per capita real income of city and country residents is at least about double the difference in their nominal income. Fifth, the peasant net income included in the annual statistics of the State Statistical Bureau include some transferred income (such as staff member and worker wage income, and net value and interest remitted or carried back by people living elsewhere). In 1989, 55.22 yuan of the peasants' per capita net income of 602 yuan was income of this kind amounting to 9.1 percent. Clearly, by comparison with city and town residents, the real income and the standard of living of the country's peasants is still rather low. An overwhelming majority of peasants have only just solved their problem of sufficient food and clothing; some have still not solved their food and clothing problems, and only an extremely small number are truly wealthy. We certainly cannot "mistakenly compare inland areas with coastal areas, or mistake sufficient food and clothing for being comparatively well off."

3. For a long time, the Chinese peasants' agricultural tax burden was truly rather light, but the peasant's other tax burdens increased year after year, and their other-than-tax burdens were particularly heavier.

With the rapid development of rural economic diversification and industries other than agriculture, the taxes that the peasants now pay to the state are not only agricultural taxes on grain, cotton, and edible oil, but special farm and forestry product taxes and product taxes from other special agricultural by-products. In addition, there are various kind of nonagricultural transaction taxes, returns taxes and property taxes, and behavioral taxes, including product taxes, business taxes, added value taxes, collective enterprise income taxes, individual industry or business income taxes, bonus taxes, city and rural taxes to maintain construction, vehicle and ship use taxes, land use taxes, the energy and transportation fund, education surcharges, etc. In addition, the peasant's nontax burdens are even heavier. First is the price scissors burden. It has been estimated that in 1988 the peasants provided the state a cumulative 130.2 billion yuan for a contribution of 155 yuan per capita, or 28.4 percent of rural per capita net income. Second is the social burden. Statistics from 24 provinces, autonomous regions, and central government directly administered municipalities show the peasants' per capita 1989 social burden (withholdings by collectives, township and town centralized money raising, and various assessments) amounted to between 10 and 13 percent of per capita net income for the previous year. The peasants' burden nationwide totaled approximately 50 billion yuan, or more than 60 yuan per capita. Thus, nearly 40 percent of the new value that peasants create each year is converted into industrial profits and wind-fall government revenues.

4. For a fairly long time, the state has not purchased fixed quotas of grain from the peasants at negotiated prices, much less has it made purchases at unrestricted market prices. As a result, the peasants have been unable to recoup the taxes they paid by selling more grain at negotiated prices. In other words, increasing the agricultural tax could only mean a net increase in peasants' burdens.

The idea for increasing the real agricultural tax rate from 3 percent to between 5 or 6 percent and collecting it in kind would bring in between 20.4 and 24.45 billion kilograms of grain for the state, which would be 50 billion kilograms less than the total amount now sold to the state at parity prices. Even if one takes into account that parity price grain sales will be greatly curtailed two years hence, that is still more than 25 billion kilograms less. Obviously, the state realizes that the treasury cannot afford to buy this more than 25 billion kilograms of grain at negotiated prices. The main reason for the State Council's recent decision to change the fixed contract procurement of 50 billion kilograms of grain to state fixed procurement was, perfectly justifiably, to continue to maintain procurement at a low price. At this rate, the increase in the agricultural tax on between 8 billion and 12.05 billion kilograms will mean an .06 yuan per kilogram increase this year figured in terms of the 1990 procurement price. This means that at 0.60 yuan per kilogram, the peasants will increase their income by between 1.5 and 1.8 billion yuan, but their added expenses will be between 5.5 and 8 billion yuan (including a portion of the former tax, which will naturally rise as the procurement price rises). Thus expenses will cancel out receipts plus add further net expenses of between 3.7 and 6.5 billion yuan. To go back a step, even if the state were to purchase at negotiated prices the 25 billion kilograms of state fixed procurement grain apart from taxes, at the present difference between the negotiated price and the fixed procurement price of 0.26 yuan, the peasant's income would increase only between 6.6 and 7.7 billion yuan, while their expenses would increase between 9.6 and 12.9 billion yuan, expenses swallowing up receipts and leaving the peasants with an additional net increase in expenses of between 1.9 and 6.3 billion yuan. Clearly, whether or not restrictions are removed from state fixed procurement grain in addition to grain paid as taxes, the peasants expenses are bound to increase.

5. To include peasants' social burdens in the tax collection system, and have the national treasury rebate collections to township and town treasuries would be very difficult in actual practice. Inevitably, the result would be an increase in taxes for a double burden rather than a lightening of the burden.

Some items making up the peasants' social burden such as rural withholdings for the public accumulation fund, the public benefit fund, and management fees are a form of distribution within organizations in the collective economy. They cannot and must not be jumbled together with national tax revenues. The one item that



might truly be considered for collection as a tax is the township and town program evaluation and review fee. However, under the prevailing government financial contracting system, were the township and town program evaluation and review fees to be changed suddenly into a tax and bundled into the budget, taxes would not replace it entirely. This could provide an opportunity and a possibility for its partial survival and the appearance of other social burdens. Furthermore, since it would be very difficult to rebate township and town program evaluation and review fees, or not enough would be rebated once they had been changed to taxes, rural communities would certainly concoct various pretexts for a re-introduction of program evaluation and review fees, thereby placing a double burden on the peasants. Following the general imposition of a farm and forest special products tax in 1989, no sooner had some jurisdictions begun to collect it than they spent it on wages. This was the finest illustration of the difficulty involved in following the principle of "taking from agriculture for use in agriculture."

6. The essence of reviving an agricultural tax in kind is to ease financial pressures on the government by pushing off on the peasants all of the risks arising out of grain market fluctuations. In an overall sense, this runs counter to the laws of development of a commodity economy, and is no way to bring about specialization and commercialization in agricultural production.

Looked at in material terms, the levying of an agricultural tax in kind helps the state control the sources of commodity grain in a consistent way. In value terms, it helps the state ease fiscal pressures. This is because when taxes are collected in currency, whenever the long-term market price of grain is higher than the spot price of grain, the government will have to pay the difference between the two when purchasing grain. However, when collecting taxes in kind, no matter what changes occur in the market price of grain, the government's revenue will not be affected. The only ones to be affected are the peasant producers. The trend of grain supply and demand in China is toward a long-term situation in which overall demand for grain is greater than overall supply. This means that should taxes be collected in kind, the peasants will always have to bear the losses resulting from the price differential. The key to the problem is that in the development of a rural commodity in China in which the degree of specialization and commercialization of agricultural production is constantly rising, the continued collection of the agricultural tax in kind will be extremely disadvantageous to the peasants in planning production according to the market, for the development of economic diversification, and for the optimization of the rural industrial structure. Furthermore, the likelihood that peasant households that are now growing cash crops will really stop growing cash crops in a return to the growing of grain is extremely small. An overwhelming majority will spend money to buy grain from markets for use in paying their taxes. This is bound to have an impact on the local

grain market, artificially intensifying demand relative to supply. Therefore, the levying of an agricultural tax in kind is not desirable. In 1985, the state decided to change from collection of the agricultural tax mostly in grain to collecting it in money. This was a major reform in China's agricultural tax collection work. The situation during the past several years in areas that converted to money collections shows this reform to have been successful. It should be maintained. Of course, for various reasons, a substantial number of jurisdictions that genuinely had trouble in converting to money collections should retain the collection of taxes in kind for the time being, but they should also set the stage for a gradual transition to the collection of a money tax.

7. In summary, raising the agricultural tax and collecting it in kind would really increase government revenues somewhat, but this would be of limited use in closing the every increasing tremendous gap between government revenues and expenditures. In addition, the side effects that it would bring in its train would be extremely marked; thus the price paid would be an extremely dear one.

It has been estimated that the Eighth 5-Year Plan shortfall between the country's revenues and expenditures will reach 300 billion yuan, i.e., an average 60 billion yuan per year. Obviously, making up this shortfall by raising the agricultural tax by several billion yuan each year will not do. What is more, to stimulate the peasants' interest in the future growing of grain, the state must increase the price of grain to a certain extent each year. From the national treasury's standpoint, doing this is like robbing Peter to pay Paul. Not only would it increase government operating costs, but it would have no commensurate advantages. Furthermore, it is difficult to estimate the negative effect on development of the rural economy and society, improvement of the economic environment and rectification of the economic order, and continuing reform. First, it is detrimental to ensuring the continuation and stability of rural policies. Historically the CPC has paid close attention to lightening the peasants' burdens. During the mid-1960's when some comrades proposed increasing the agricultural tax, Premier Zhou said: "You can put this on record today. So long as I live, you will not increase the agricultural tax burden, and after I am dead, you will also not be able to act arbitrarily against the peasants' desires." (Ministry of Finance, "Remembering the Premier at Times of Great Changes," HONGQI No. 3, 1979) In 1990, the State Council specially issued "Circular Notice on Genuine Reduction of the Peasants Burdens." If we lighten the peasant's burdens on one hand, only to suddenly increase them by raising the agricultural tax on the other, we will lose the confidence of the people. Second, this would hurt agriculture, particularly the sustained, consistent, and coordinated development of grain production. After a five year standstill in the country's grain production, a change for the better has just begun during the past two years. The peasants interest in growing grain has just begun to

revive. For the next 10 years, grain output should increase by approximately 7.5 billion kilograms each year. This is a fairly daunting task. Increasing the agricultural tax burden against this background would be truly untimely. Third, it would be bad for the rural social order. Quite a few elements for instability exist in rural villages today. Increasing the agricultural tax would hurt the moderation and improvement of already rather tense relations among the Party rank and file and the cadre rank and file. It would be far better for us to forego the collection of billions of yuan in exchange for prosperity and peace rather than to make many policy changes, particularly policies that take billions of yuan from the peasants and rile the people. Fourth, it would hurt the continued improvement of the economic environment and rectification of the economic order as well as the deepening of reform of the national economy. Improvement of the economic environment and rectification of the economic order has begun to show results, and one very important reason is that the state of agriculture is fairly good. Everyone agrees on this. A unanimous call during the Eighth Five-Year Plan has been for full use of the fine opportunity to ease the problem of supply meeting demand, and to do more in the way of reform to solve at its source the deep-seated problems of an irrational structure and a decline in returns. There is no doubt at all that doing this will require an ample material foundation and a relaxed economic environment. Raising the agricultural tax burden as suggested above, might very well impair agriculture, particularly the sustained, consistent, and integrated development of grain production, thereby damaging the development of industry, or even the entire national economy, as well as the deepening of reform.

The foregoing analysis shows fully that increasing the agricultural tax and collecting taxes in kind is a policy that produces more disadvantages than advantages, and that is counterproductive. This issue has a bearing on the fundamental interests of the more than 800 million peasants, so we must adopt a doubly cautious attitude toward it.

We make the following recommendations for smoothing relations between the government and the peasants, and between collectives and the peasants:

1. More reform, particularly reform of enterprises, taking strong actions for genuine economic restructuring to improve enterprises returns for realization of a benign development of production that increases profits and tax payments to provide ample revenues for the government. This is a fundamental policy for realizing a fundamental turn for the better in financial and economic affairs. It is also a basic guarantee for greater development of reserve strength in agriculture, and for the deepening of rural economic reform.

2. Agriculture holds first place as a foundation of the national economy. The key to China's realization of the goal of a quadrupling of GNP by the end of the present

century lies in whether agriculture can maintain sustained, consistent, and integrated development. However, agriculture is China's weakest industry, so this requires the state to adopt a consistent policy of supporting agriculture. Certainly, today when the country is lacking in financial resources, any increase in agricultural investment is unrealistic. However, the government can do all possible to readjust the present structure of investment to increase the portion going to agriculture. In addition, by stabilizing the existing agricultural tax burden, the government can make possible an indirect investment in agriculture. This can produce twice the results for half the effort in increasing the ability of agriculture to develop itself.

3. The key to smoothing relations between the state and the peasants lies in the exchange of industrial and agricultural products at equal value. Undeniably, the main impairment to peasant interest in growing grain stems from the unfair prices paid for grain and inequities in the procurement and marketing system. The central problem today in smoothing relations between the government and the peasants is gradual readjustment of the grain price system (including the price ratio between grain and fertilizer, the price ratio between grain and cash crops, and the ratio between procurement and market prices) in accordance with the laws of value in the deepening of reform of the grain procurement and marketing system. Taken to its logical conclusion, this requires readjustment of the prevailing inequities between industry and agriculture, and between cities and the countryside in benefits received. This problem simply cannot be avoided. So-called accommodations cannot be made (such as changing fixed procurement to a tax that is collected in kind), supplanting the existing unfair sharing with another form. Instead, the grain pricing and the procurement and marketing system must be readjusted. People generally agree today that this must apply not only to procurement but to marketing as well, and procurement and marketing must be changed together; otherwise, the change would mean a large increase in national government subsidies. Changes to the marketing system will require reducing sales of grain at state-set prices and raising the price of grain sold at the state price. The experience of jurisdictions that have already reduced state price grain sales or raised the state price shows that this helps stimulate production, holds down consumption, and reduces government subsidies. If leadership is strengthened, and the task performed carefully, it need not cause large market fluctuations and social disturbances.

4. All unfair burdens must be resolutely banned in accordance with requirements set forth in the State Council "Circular Notice on Genuine Reduction of Peasant Burdens," all equitable burdens such as rural withholdings, rural program evaluation and review, compulsory labor and labors accumulations being diligently held within set percentages. With the future thorough reform of the financial contracting system, and gradual implementation of the system for apportioning

taxes, thought can be given to bringing under budget the collection of program evaluation and review fees used for the building of public utilities. Alternatively, a fund may be separately collected, or the percentage of the agricultural surtax may be raised, their use in agriculture assured. Legislation should also strictly prohibit the collection from the peasants under various pretexts of all sorts of fees.

5. Since prices of agricultural products cannot be greatly increased during the Eighth Five-Year Plan, and since instant results cannot be gained in the lightening of the peasant's social burdens, it is suggested that a clear announcement be made of no change in the existing agricultural tax.

### 1990 State Farm Statistics

91CE0623A Beijing ZHONGGUO NONGKEN [STATE FARM AND LAND RECLAMATION IN CHINA] in Chinese No 6, 4 Jun 91 pp 4-5

[Article by the Statistics Office of the Farm and Land Reclamation Department of the Ministry of Agriculture: "1990 Communiqué on the Statistics of Economic and Social Development of State Farm and Land Reclamation in China"]

[Text] In 1990 the state farm and land reclamation department conscientiously implemented the guidelines of the Fifth and Sixth Plenary Sessions of the 13th CPC Central Committee, continued to deepen reform in the course of rectification and improvement, enabled agricultural, industrial, commercial, building, transportation, and service industries to make sustained, stable, and coordinated developments, and made promising achievements.

In 1990 the state farm and land reclamation department fulfilled 34.635 billion of total social output value (calculated on the basis of the constant price of 1980; same hereafter). Of this, total industrial and agricultural output value was 30.566 billion yuan, an increase of 11.7 percent over 1989; annual GNP was 12.951 billion yuan and national income was 12.384 billion yuan; total tax and profit delivery were 2.832 billion yuan, of which, 1.222 billion yuan was profits, a decline of 15.32 percent and 1.61 billion yuan was taxes, an increase of 13.54 percent.

### I. Agriculture

In 1990 the gross value of agricultural output was 12.382 billion yuan, an increase of 14.49 percent over 1989. The proportion of total agricultural output value in the gross value of industrial and agricultural output increased from 39.52 percent in 1989 to 40.51 percent. Of total agricultural output value, the total output value of the crop-growing industry was 7.893 billion yuan, an increase of 18.7 percent over 1989 (same hereafter); the total output value of forestry was 1.651 billion yuan, an increase of 6.45 percent; the total output value of animal husbandry was 1.088 billion yuan, an increase of 9.17

percent; the total output value of side-line products was 554 million yuan, an increase of 6.45 percent; and the total output value of fishery was 296 billion yuan, an increase of 6.86 percent.

The total acreage of land owned by the state farm and land reclamation department was 542 million mu, an increase of 25.47 million mu over 1989 (same hereafter). Of this, 66.4083 million was cultivated land, an increase of 659,100 mu; 36.4427 million mu was forest, of which, 5.9757 million mu was rubber plantation, 245 million mu was pasture, 13.5576 million mu was water surface, 2.5247 million mu was tea plantation, orchards, and mulberry fields, and 7.7351 million mu was suitable for forestation.

A. The area sown to crops was 66.4239 million mu. Of which, grain (including soybean) area was 48.9341 million mu, an increase of 2.41 percent over 1989. Grain output ascended to another new level and total output exceeded 10 million tons for the first time and reached 11.6844 million tons, an increase of 1.86 million tons or 18.97 percent. Per-capita grain output was 996 kg; per-mu yield was 239 kg, showing an increase of 16.02 percent. Total soybean output was 1.3101 million tons and per-mu yield was 117 kg.

In 1990 the Heilongjiang state farm and land reclamation area made a breakthrough in the improvement of grain production. Its total grain and soybean output was 4.6026 million tons, accounting for 39.39 percent of all state farm output, and increased 31.98 percent over 1989. The per-mu yield of wheat was 227 kg, an increase of 31.98 percent. The per-mu yield of soybean was 119 kg. The "bumper-harvest plan" of 530,000 mu rice paddy of the Liaoning state farm and land reclamation area yielded outstanding results. The per-mu yield reached 646 kg. The Xinjiang Military Unit reaped bumper harvest of grain for several years running. In 1990 its total grain output was 1.5663 million tons, an increase of 10.43 percent over 1989. In 1990 the per-mu yield of wheat of the Ningxia state farm and land reclamation area, which adopted "comprehensive high-yield cultivation techniques for 90,000 mu of wheat," averaged 375 kg.

The total output of oil-bearing crops was 363,800 tons, an increase of 24.67 percent.

The total output of sugar-bearing crops was 6.3059 million tons, an increase of 36.33 percent over 1989. Of which, sugar cane output was 4.06 million tons, an increase of 17.89 percent; beet output was 2.2459 million tons, an increase of 90.09 percent.

B. Total cotton output was 280,900 tons, a 53.33 percent increase over 1989. The total cotton output of the Xinjiang Military Unit was 104,800 tons, a 62.06 percent increase. Of which, total long-staple cotton output was 34,200 tons and per-mu yield was 62 kg. Its acreage, per-mu yield, and total output all set records.

C. Total solid rubber output was 231,400 tons, a 7.53 percent increase over 1989. Overcoming the effects of tropical storms, the Hainan state farm and land reclamation area managed to produce a total of 133,500 tons, accounting for 57.69 percent of total solid rubber output of all land reclamation areas.

D. Livestock production: The number of dairy cows in stock at the end of 1990 was 510,200, a 6.47 percent increase over 1989; the number of hogs in stock was 3.6068 million, about 30,000 head fewer; and the number of sheep in stock was 9.0964 million, a 2.7 percent increase.

Total milk output was 953,500 tons, an 8.4 percent increase over 1989.

Total meat output was 415,900 tons, a 9.74 percent increase.

Total egg output was 179,500 tons, a 6.09 percent increase.

Total pilose antler output was 453,700 tons, a 2.72 percent decline.

Total honey output was 2,134 tons, a 15.04 percent increase.

E. Total tea output was 47,100 tons, an increase of 1.29 percent over 1989. The Yunnan state farm tea area reached 80,000 mu.

F. Total fruit output was 647,700 tons, same as 1989.

G. Total ginseng output was 2,446.6 tons, a 37.7 percent increase.

H. The production of fishery increased continuously. The output of aquatic products reached 188,400 tons, 8.87 percent higher than 1989. Of which, fresh water products totalled 152,200 tons, a 8.33 percent increase; marine products totalled 36,200 tons, a 10.7 percent increase; and prawn output totalled 21,300 tons, a 12.11 percent increase.

## II. Industry

Under the difficult conditions of fund shortage and sluggish market, the industry of the state farm and land reclamation department survived on quality, improved efficiency with management, and maintained an appropriate growth rate. In 1990 the total industrial output value of the state farm and land reclamation department reached 18.184 billion yuan, an increase of 9.89 percent over 1989. Of which, the output value of state-owned industries increased 7.77 percent as compared to that of 1989; collective industries increased 22.47 percent; and individually-owned industries increased 20.27 percent. In 1990 tax payment and profit delivery achieved by industries were 2.227 billion yuan, 8.8 percent lower than 1989. Of which, profit delivery was 1.027 billion yuan, a decline of 24.26 percent. The total output value of the light industry was 12.28 billion yuan, accounting

for 68.48 percent of total industrial output value. The state farm and land reclamation department owned 146 large and medium-sized industrial enterprises whose output value reached 4.439 billion yuan, accounting for 24.41 percent of total industrial output value of the state farm and land reclamation department.

Outputs of major industrial products are as follows:

Item	1990 output	Increase/decrease over 1989 (%)
Power output	1.737 billion kwh	16.42
Raw Coal	7.2674 million tons	-4.59
Synthetic ammonia	117,100 tons	9.13
Chemical fertilizer	133,800 tons	0.75
Cement	2.3625 million tons	2.45
Cloth	221 million meters	7.8
Machine-processed paper and cardboard	397,500 tons	11.19
Machine-processed sugar	498,500 tons	9.71
Liquor	500,600 tons	-8.33
Dairy products	93,300 tons	17.06

## III. Fixed-Asset Investment

In 1990 China's state farm and land reclamation department completed 3.65 billion yuan of fixed-asset investment, a 3.37 percent increase over 1989. Productive construction investment was 2.927 billion yuan, a 0.89 percent increase; capital construction investment was 1.872 billion yuan, accounting for 51.29 percent of total investment. Of financial allocations, 272 million yuan was state-budgetary funds and 292 million yuan was state-budgetary "fund-turned loans." Self-raised funds were 1.469 billion yuan, and the amount of foreign capital utilized was 289 million yuan. Agricultural investment was 1.02 billion yuan, an increase of 5.53 percent over 1989.

Newly-increased fixed assets were valued at 2.985 billion yuan. Newly increased production capacity includes 595,500 mu of cultivated land, 2,355 large and medium-sized tractors, 2,182 small and walking tractors, 1,867 trucks, 41 new reservoirs (63.6317 million cubic meters), 724,800 mu of new forest, 63,200 mu of land reclaimed for rubber plantation, 1,129 km of power transmission lines, 95,200 school seats, 2,600 hospital beds, 2.3519 million square meters of housing, 67,600 spindles, and 29,000 tons of machine-processed paper and cardboard per year.

## IV. Building and Communications and Transportation Industries

In 1990 the state farm and land reclamation department owned 1,539 construction units, 277,600 employees, fixed assets worth 902 million yuan in original value, and 29,500 sets of various mechanical equipment. In 1990, the department contracted 14,600 construction

projects or 10.2922 million square meters of construction area, created 1.64 billion yuan of output value, and paid to the state 61 million yuan in taxes and 37 million yuan in profits.

New progress was made in communications and transportation. At the end of 1990, the state farm and land reclamation department owned 16,300 trucks with a carrying capacity of 80,594 tons, 1,356 passenger vehicles with 47,866 passenger seats, 342 motor transport ships with a tonnage of 16,874 and 1,499 passenger seats. All cargo transport vehicles fulfilled 340,430 ton-km of cargo transport volume. All passenger transport vehicles fulfilled 291,339 person-km of passenger transport volume. The total output value of the transportation industry was 900 million yuan, the amount of taxes paid was 25 million yuan, and the total amount of profits delivered was 62 million yuan.

#### V. Commerce, Food, Service Industries and Exports

By the end of 1990, the state farm and land reclamation department owned 17,200 commercial, catering, and service units, 159,400 employees, and fixed assets worth 1.674 billion yuan in original value. The sales of commercial and catering industries totalled 11.693 billion yuan, and the business income of the service industry totalled 265 million yuan. There were also 52,600 individually-owned commercial, catering, and service points which had as many as 74,600 workers.

Export commodities continued to increase. The total value of commodities exported in 1990 was 3.226 billion yuan, a 12.21 percent increase over 1989. Of which, the export of industrial products valued 2.302 billion yuan, a 28.65 percent increase. Among the 36 state farm and land reclamation units, the five units whose total amount of export ranked in the first five places are the Xinjiang Military Unit, Heilongjiang, Shanghai, Jiangxi, and Hubei.

#### VI. Scientific Research, Education, and Public Health Undertakings

In 1990 China's state farm and land reclamation department owned 710 scientific research units (with 8,400 scientific and technical personnel) which won in 1990 17 ministry-level "advanced scientific and technological awards" and nine ministry-level "bumper-harvest awards." Twelve collectives and 75 individuals were awarded ministry-level advanced awards.

The state farm and land reclamation department had 10,146 schools of various kinds (including 99 adult colleges and secondary and vocational schools), 203,600 faculty members, 2.0611 million students, and 389,700 graduates in 1990. Of these, 10 were general schools of higher learning which had 11,200 students and 3,500 graduates in 1990; 32 were general secondary and vocational schools which had 13,200 students and 4,300 graduates in 1990; 1,951 general middle schools which had 694,700 students and 155,700 graduates in 1990; 24 technical schools which had 8,500 students and 2,900

graduates in 1990; 191 vocational middle schools which had 62,000 students and 21,700 graduates in 1990; and 7,838 elementary schools which had 1.2347 million students and 190,000 graduates in 1990. In 1990 adult colleges and secondary vocational schools graduated a total of 11,600 students.

Public health undertakings developed steadily. The department had a total of 12,400 medical units. Of which, 1,523 were hospitals and six were nursing homes. They had a total of 73,600 beds and 85,600 medical personnel which included 36,900 doctors.

#### VII. Population and Labor Wages

In 1990 China's state farm and land reclamation department had a total population of 11.8107 million, an increase of 300,800. Among them, minority population was 1.1218 million, accounting for 9.5 percent of the total population. The birth rate of population was 13.42 per thousand, lower than the 21.6 per thousand national level. The natural growth rate of population was 9.17 per thousand, lower than the 14.39 per thousand national level.

At the end of 1990, there were 5.2627 million workers, 102,600 or 1.99 percent more than 1989. Of this figure, 4.5355 million were employed on farms. Among farm workers, 3.7625 were regular employees and 477,300 were contract workers.

The state farm and land reclamation department had 5.8068 million social workers. Among them, 3.4001 million were employed in the primary industry, 1.4743 in the secondary industry, 932,400 in the tertiary industry, accounting respectively for 58.55 percent, 25.39 percent, and 16.06 percent.

The total wage bill in 1990 was 8.553 billion yuan, an increase of 11.5 percent over 1989. Workers' wage averaged 1,647 yuan a year, an increase of 9.95 percent over 1989.

#### Liaoning Wheat Area, Output

91P30162J Beijing JINGJI RIBAO in Chinese 29 Jul 91 p 1

[Summary] The wheat area in Liaoning Province was 2,560,000 mu, an increase of 730,000 mu over 1990. Wheat output reached 602 million kilograms, an increase of 100 million kilograms over 1990, and the average per mu yield was 234.8 kilograms.

#### Shaanxi Grain Storage

91P30162I Beijing JINGJI RIBAO in Chinese 29 Jul 91 p 1

[Summary] As of 20 July, Shaanxi Province had put 768,290,000 kilograms of summer grain and 80,230,000 kilograms of rapeseeds in storage, fulfilling 104.2 percent and 123.4 percent of the task.

**Hebei, Shanxi Grain Output***91P30162H Beijing JINGJI RIBAO in Chinese  
2 Aug 91 p 1*

[Summary] Estimated output of summer grain in Hebei Province is 9 million tons. Summer grain output in Shanxi Province reached 3.203 billion kilograms.

**Overseas Fishing Fleet To Double by 1995***HK1108045491 Beijing CHINA DAILY (BUSINESS WEEKLY) in English 11 Aug 91 p 4*

[By staff reporter Wu Yunhe]

[Text] China's fishing fleet is to increase its presence in foreign waters in order to meet a target of bringing in 300,000 tons of seafood in 1995.

The deep-sea fishing industry will increase its trawlers from the present 120 to 250 in 1995, according to a senior official with the Ministry of Foreign Economic Relations and Trade (MOFERT).

At a recently-held national conference on pelagic fishing—fishing the upper waters of open seas—in Beijing, the official said the ministry and the deep-sea fishing industry had jointly worked out a development strategy aimed at adding fuel to the Chinese Government's efforts to push the nation's annual per capita consumption of fish products to 12 kilograms by 1995, a rise of nearly two kilograms from last year.

In future, China will seek more partners in foreign countries and reinforce its foothold in traditional markets, said the official.

At present, there are more than 120 Chinese vessels operating in the deep waters off West Africa, North and South America and the Pacific area.

The decision to allow the Chinese to fish in foreign waters was reached as a result of co-operation agreements with foreign partners and joint ventures. Co-operation with Africa, South America and the central and southern Pacific areas were expected to be strengthened during the next few years, the official added.

After five years of fishing in waters off more than 12 foreign countries, including the Soviet Union, Argentina, Spain, Morocco and Nigeria, China's pelagic fishing industry has expanded, said another official from the China National Fisheries Corporation (CNFC).

As fish resources along China's own coast deteriorated, the first off-shore fishing fleet, sent by the CNFC, set sail from Mawei port in Fuzhou for West Africa in 1985, marking a new era in China's fishery history.

"China is expected to increase investment in the industry and send more vessels to maintain the growth of

fish production over the next few years," said the official. Trawlers already abroad have a total fishing and processing capacity of 100,000 tons, he added.

At least 30,000 tons of the year's catch from foreign waters were shipped back to the domestic market every year.

And a the deep-sea fishing industry has developed, so the export business has received a boost. China has been exploring not only fishing vessels and tackle, but around 70,000 tons of fish every year.

**Mechanized Farming Targets Set***OW1208000891 Beijing XINHUA Domestic Service  
in Chinese 0649 GMT 11 Aug 91*

[By reporter Wang Yanbin (3769 6056 1755)]

[Text] Beijing, 11 August (XINHUA)—The next decade will see the country's gross national product once again doubling and the people leading a comparatively well-off life. Hence, there shall also be a relatively big advance in the level of China's farm mechanization. The main targets for developing farm machinery drafted by the relevant government department reveal that farm mechanization will be enhanced considerably.

According to a senior official of the Ministry of Agriculture, the area plowed by machinery will increase from 720 million mu in 1990 to 850 million mu in 1995 and 950 million mu in 2000; the area sown by machinery, from 320 million mu in 1990 to 470 million mu in 1995 and 700 million mu in 2000; the area harvested by machinery, from 165 million mu in 1990 to 280 million mu in 1995 and 450 million mu in 2000; the amount of grain threshed by machinery, from 230 million tonnes in 1990 to 350 million tonnes in 1995 and 400 million tonnes in 2000, with 80 percent of threshing done by machinery; the area of crop protection done by machinery, from 205 million mu in 1990 to 220 million mu in 1995 and 320 million mu in 2000; and the area of electrical-mechanical irrigation, from 408 million mu in 1990 to 420 million mu in 1995 and 450 million mu in 2000. There will be a compatible growth in shearing sheep and enhancing oxygen in fresh water fish breeding ponds with machines. The total power of farm machinery throughout the country will increase from 287 million kilowatts in 1990 to 357 million kilowatts in 1995 and 424 million kilowatts in 2000.

**Output Value of Farm Machine Manufacturing Rises***OW1308080591 Beijing XINHUA in English  
0605 GMT 13 Aug 91*

[Text] Beijing, August 13 (XINHUA)—The total output value of China's farming machine manufacturing enterprises reached 18.34 billion yuan in the first half of this year, up 24.8 percent over last year, today's "Economic Daily" reported.

The gross sales volume of the nation's farming machinery companies in this period stood at 11.36 billion yuan, a record.

Statistics show that the sales of 20 of the main types of farming machines, including large and medium-sized

tractors and sprinklers, increased by over 50 percent in the same period. Sales of small trailers and diesel engines rose by at least 25 percent.

With demand showing a steady growing trend, it is predicted that the total sales in 1991 will reach 21.2 billion yuan.



**Professional Beggars in Action**

91CM0429A Hong Kong PAI HSING [THE PEOPLE]  
in Chinese No 238, 16 Apr 91 pp 34-35

[Article by Ze Hong (4575 9096): "The Quality of Beggars on the Mainland Has Changed"]

[Excerpt] [passage omitted] Beggars on the mainland are developing professionalization. Society terms those who build up wealth through begging "begging specialists." Towards the end of last year, Beijing detained a group of beggars; most of them were found to carry quite a lot of cash, or even savings deposit books. In many detention centers, there are "lady beggars" dressed in quality woolen sweaters, high-heeled boots, down jackets, and leather jackets, with no trace of their begging status.

Cheng, a pretty, modern girl of 23, is from Xi County, Anhui Province. A year and a half ago, she came by herself to Shanghai from the countryside. Since then, she started her begging life. She went around the entrances of the Overseas Chinese Hotel and the International Hotel, where foreigners and overseas Chinese resided. With eyes full of tears, she told people the tragic story of "how her father suffered from an incurable disease and was unable to go to surgeons in Shanghai because of a lack of money." Many were moved to donate money. No one would believe that she had 25,000 yuan in foreign exchange strapped to her body when she was detained.

A Shanghai girl whose family name was Tong took the road of "begging to become rich" after she was released from prison. Her begging territory included Longhua Temple and Yunju Nunnery, where she found old ladies devoted to Buddhism. She took advantage of their kindness and sympathy by telling them fabricated and rehearsed stories, sufficiently tragic and moving, in exchange for repeated, large "contributions." According to a newspaper investigation, the girl accumulated nearly 80,000 yuan over the past two years, most from begging.

When professional beggars make the pursuit of money their sole goal in life, they can create various "tricks." On Nanjing's commercial Gulou Street, a girl in modern dress carried a shoulder bag that was slashed open. She talked only to military officers and scholarly looking people, saying, "Comrade, I just came to Nanjing. My bag was slashed open and my money was stolen. Could you lend me five or ten yuan, and give me your address? I will immediately mail it back to you the moment I return home." Upon hearing these polite and sincere words, these kind-hearted people could not help but contribute. If someone gave only one or two yuan, she would add, "What can I do with just one yuan?" This made sensitive people give more to satisfy her demands.

At the crowded Guangzhou Railway Station, a graceful girl allowed people to think of her as a cute little pet. She threw herself upon whoever she met, saying, "I am broke and can't go home to Anhui." It may have been because of her beauty, but men offered help. Some bought train tickets for her, and others simply gave her money. Of

course she never went home. Day after day she repeated the words that had proven effective. In the security office, she confessed that she made an average of 25 yuan plus two tickets daily. "I would immediately return the tickets to the ticket window for a cash refund."

The following "cover-up trick" is the most recent innovation by professional beggars on the mainland. At the entrance of the People's Park on Shanghai's commercial Nanjing Road, a man with "an amputated leg" was often seen in his self-made wheelchair. In front of the chair was a piece of paper held down with two bricks. The paper, which attracted tourists, read, "To every kind comrade: I recently came from rural Subei to Shanghai to have my leg treated. Unfortunately, my money for the expenses was stolen by thieves. Please help me with my leg treatment." The pitiful, emotional tone made people curse the thieves for their cruelty. They then donated money. No one could even imagine that the man who won so much sympathy from the tourists lived in Shanghai. His leg was not amputated. He cheated by crossing one leg and tying it up, and then covering it up with an extended suit. The fraud was not exposed until the day a childhood friend of his came by and recognized him.

More than 40 lady beggars lived on the outskirts of Jinan, Shandong Province. They used both "begging" and "stealing." The targets of their thefts included plastic garden foil, construction material from construction sites, and individual household tools. When they were found out and pursued, some of them shamelessly took off their pants so that the pursuers had to stop. At night, they would sneak naked into construction sites, taking iron clippers from the scaffolds. The guards could only shout at them. They did not dare come close to the women for fear of being "unable to prove their innocence" in the situation. In a recent clean-up campaign, Jinan security officers seized more than a boxcar full of clippers from these beggars' lair.

Under the pipal trees in Waitan, Shanghai, there are crowds of young dating couples. Beggars' hands reach out to those couples. The two young people face each other tensely, briefly cherishing the precious opportunity and the moment of meeting. However, the couples "willingly" take out their wallets and give the beggars several cents or several yuan to get rid of them. This is the "new continent" that beggars have recently discovered; they come here frequently.

Stone benches in parks have also become a tool in beggars' operations. Every evening, a special group of ladies come to Shanghai's Huangpu Park. Following the "early bird" strategy, they put their bags on the scarce benches, or simply lie on the benches, reserving them. They are "willing" to give up their reservation to eager dating couples. A "thank you" from those couples would invite bargaining for the "price" of a reservation. "How about two yuan, or..." If the man shows any sign of hesitation, the beggars would bombard him with sarcasm, "Have you ever seen a man so tight with money

when dating? What a stingy guy! He is no gentleman..." The beggars thus get what they want for their "reservation service" after a small investment in the park's admission fee.

One of the major reasons women beggars can "reap a daily harvest at various places" is that they are clever with detailed calculations and shrewd about studying psychology. A beggar named Wang confessed that begging requires not only mastering one's opportunities, but also requires a knowledge of people. Once she spotted

two old, fat foreign ladies. She pulled out a card on which the following was written in English: "My mother is hospitalized and in critical condition. We need money. Please help me. Thank you very much, and God bless you." She got quite a large sum of foreign currency from the ladies. She also is well acquainted with some factories' pay days. She would stand at the factory entrance on such "fortunate days" and ask for money. On this occasion workers would not mind giving a few cents or a yuan. If the factory had thousands of workers, her income that day would be really incredible.

### **Soviet Fighters, Air Defense Weapons Sought**

91CM0442A Hong Kong KUANG CHIAO CHING  
[WIDE ANGLE] in Chinese No 223, 16 Apr 91  
pp 74-77

[Article by Ling Yu (0407 1342): "Chinese Communists Seek Military Cooperation With the Soviet Union"]

[Text] Some time ago there was a report that the Chinese Communists intended to buy weapons from the Soviet Union, including the advanced Su-27 Flanker fighter, in order to strengthen the modernization of their armed forces' equipment.

Jiang Zemin recently said: Modern warfare has become high-tech warfare; it is three-dimensional warfare, electronic warfare, and missile warfare, and if one is backward one will take a beating. During modernization, the electronics industry will become one of the principal industries for priority development.

### **Chinese Communist High-Level Military Is Familiar With Soviet Equipment**

For the Chinese Communists, both from the angle of the international environment and from that of technology, the Su-27 is an excellent choice. In fact, since the founding of the People's Republic in 1949, the Chinese Communists have been equipping their massive armed forces with Soviet weapons. In particular, from a base of almost nothing, the Air Force began arming itself with Soviet-made fighters. In the 1950's the Chinese Communists' aviation industry was also set up from scratch with the help of Soviet experts. Even though the Chinese Communists and the Soviet Union had a falling out in the early sixties because of ideological differences, and even though Moscow withdrew its experts and stopped providing Beijing with weapons and technologies, because the Chinese Communists have for a long time been unable to get new weapons and technologies from other sources—particularly the Western countries, they have always been confined to Soviet weapons and technologies. Whether engineers or military men, the Chinese seem to show a "singular attachment" to Soviet-made equipment. A clear example of this is: Since they could not get new-type weapons from the Soviet Union, the Chinese Communists tried by all ways and means to import from third countries samples of the Soviet-made weapons used by these countries. For example, they obtained the MiG-23 Flogger fighter and the BMP-1 Armored Infantry Vehicle from Egypt, and they tried to get the T-72 Main Battle Tank from Romania. Some of the design and technology of the MiG-23 was "transplanted" to the Chinese Communists for their development of the Jian-8 II fighter, and their Type 501 is a copy of the BMP-1 Armored Infantry Vehicle. Over the past 10 years, although the Western countries have been very interested in entering the Chinese Communists' weapons market, and although Beijing has selectively updated some of their equipment, the proportion of such equipment still tends to be low. After the June 4th Incident, the Western countries stopped their arms trade with the

Chinese Communists. The plan for which the Chinese Communist's had previously commissioned America's Grumman—to carry out a modernized refitting of the Jian-8 II, as well as to cooperate in developing the Jian-7M into the Chao-7 fighter—was rescinded. Under these circumstances, just when Moscow changed its work style and vigorously promoted the sales of its first-line advanced weapons on the international market, the Chinese Communists again turned to the Soviet Union for equipment, a development that was only natural.

### **Performance of Su-27 Fighter**

The Su-27 is the newest generation and currently most advanced high-performance, all-weather, heavy model, air-domination fighter. It was developed by the Sukhoi Design Bureau. It is a product developed by the Soviet Union in the late sixties to constitute an aircraft on an equal footing with America's McDonnell Douglas F-15 Eagle fighter. Therefore, it is somewhat similar in external appearance to the F-15 but with larger bulk. It has a length of 21.9 meters, a wing span of 14.7 meters, and a maximum takeoff weight of 29,940 kg (the F-15A has a length of 19.4 meters, a wing span of 13.5 meters, and a maximum takeoff weight of 25,540 kg).

The Su-27 is of the "blended wing leading edge" design. It has a twin-finned, all-moving horizontal tail. Its landing gear is of the forward tricycle type and is very strong, so the fighter can land on a rough runway. It is fitted with two Lyulka AL-31F turbofan engines, each with an afterburner thrust of 122.32 kiloNewtons (12,485 kg force), making the aircraft's normal takeoff thrust-weight to height ratio 1.1:1 and its maximum flying speed 2.35 Mach. Because the basic mission of the aircraft as originally designed was long-range interception and patrol, its on-board maximum fuel capacity is 8,626 kg, a little more than the F-15A's but more than 1,300 kg less than a F-15C fitted with conformable shape fuel tanks.

In weapons and equipment, the Su-27 has 10 external missile racks and one 30mm machine cannon. The external racks can carry various types of air-to-air missiles, from the AA-8 to the AA-11, or other weapons, but the aircraft does not have multiple target-lockon equipment and therefore is unable to attack multiple targets at one time. However, its avionics system is much more advanced than the West originally estimated, being composed of pulsed-doppler radar, infrared search and tracking equipment, laser distance-measuring instrumentation, a helmet sight, and a heads-up display unit. In addition, the aircraft has a four-channel telecontrol system, which is in digital mode and greatly improves the aircraft's flight performance. However, not much composite material is used in the aircraft's structure.

### **Chinese Communists Urgently Need To Replace Air Defense Weapons**

Generally speaking, present equipment of the Chinese Communist Air Force is backward. The backbone of the Air Force is the Jian-6, a copy of the MiG-19, and the

Jian-7, a copy of the MiG-21; the Jian-8 II, allegedly the newest model, is apparently just a "blend" of the MiG-21 and MiG-23. Under circumstances in which funds for national defense are tight, it is difficult for the Chinese Communists to import on a large scale from Western countries the most advanced fighter manufacturing technologies. In fact, with the current level of technology in China, the Chinese Communists may not necessarily be able to completely digest the advanced technologies of the West; in addition, many of their technological talents came through Soviet-style training. Therefore, when the Su-27 was recently put on the international market, Beijing showed a great deal of interest.

If the Chinese Communists succeed in importing the Su-27, they may possibly stop the current production line for the Jian-8 I and switch to producing the Su-27. However, the production of the Jian-7 III aircraft, which was developed by the Chengdu Aircraft Plant, will most likely continue, and it is very likely that it will be used with the Su-27 to form a "high-low pairing."

Besides the Su-27 fighter, the Chinese Communists could be interested in importing Soviet air defense radar and surface-to-air missile systems. At present the performance of these two types of equipment possessed by the Chinese Communists is far below that of the world's advanced level. A few years ago it was said that the Chinese Communists were disposed to negotiate the purchase of America's Raytheon Improved Hawk surface-to-air missile system, but in the end nothing definite was arranged (when the Chinese Communists conduct "negotiated purchase" of military equipment from Western countries, this is often the result).

#### Gulf War's Revelation

For the Chinese Communist technicians and military men, the recent Gulf War was a lesson in understanding modern sophisticated science and technology. The coalition forces led by America, relying on their scientific and technological superiority, struck Iraq, which had no power to strike back, and in the end the Iraqi army beat a precipitous retreat from Kuwait with its tail between its legs. What the coalition forces displayed most prominently was air superiority. Given the coalition forces' total air superiority, they scored a clean and neat victory over Iraq's naval and ground units. The high degree of importance attached to air superiority and ground air-defense systems in modern warfare was clearly shown in this war, while these are precisely the two weak areas in China's armed forces. Therefore, it can be predicted that

Beijing's desires and actions to restore and enhance Sino-Soviet military cooperation will tend to be vigorous, and also its focus will very likely be on advanced fighters and ground air-defense systems.

Will the Soviet Union be willing to sell advanced weapons to the Chinese Communists? This is an interesting question. Beginning in the early sixties, to guard against Soviet military aggression, the Chinese Communists deployed massive forces on the Sino-Soviet border, and each side regarded the other as a military adversary. Although the relationship between the Chinese and Soviet communists has already thawed, the Sino-Soviet honeymoon of the early fifties certainly cannot be restored. However, another reality is that the East European countries, which were formerly subordinate to Moscow, are now, one after another, seeking political independence. East Germany has been united by West Germany, the Warsaw Treaty bloc has disintegrated, and the Soviet Union now cannot obtain from these East European countries the economic interests it did before. Therefore, the Soviet Union urgently needs to make up from other markets and other sources the economic losses it has sustained in Eastern Europe; in other words, the Soviet Union needs money. Thus, military cooperation between the Chinese Communists and the Soviet Union is a case of "both parties benefiting."

#### Development of Chinese Communist Navy Will Slow

Relating to the possibility of "Sino-Soviet military cooperation," an evaluation of the possible trend in the development of the Chinese Communist military is that their Navy, which in the past several years was vigorously developed, perhaps will suffer a cutback in funds because of Beijing's need to shift funds to the importation of the most urgently needed Soviet air arms. The development plan for building aircraft carriers, which was once the subject of constant rumors, will be delayed; the number of new generation guided missile destroyers that will be built could be less than expected; and for the active service Type 051 Luda-class guided missile destroyers, which could use new weapons (like the C-801 Eagle Strike 8 ship-to-ship missiles) and electronic instruments (like radar and sonar), or could be refitted with a helicopter landing and recovery deck and hangar (like Destroyer 105) and improved, the method of discrimination has been employed. There will be fairly little effect on the Army, because the Chinese Communist Army's main weapons and equipment already have a footing in China and the Army has its own systems. At the same time the Army has the greatest proportion and influence among the Chinese Communist armed forces.

**Trade With Europe Expanding Steadily**

91CE0620A Hong Kong CHING-CHI TAO-PAO  
[ECONOMIC REPORTER] in Chinese No 23,  
10 Jun 91 p 32

[Article by Feng Ling (1496 7117): "Taiwan Intensifies Efforts To Develop Economic and Trade Exchanges With Europe"]

[Text] To gain a foothold on the international stage and to prop up the island's economy, authorities on Taiwan have exerted great efforts during the last few years to develop economic and trade exchanges with the various countries of Europe. Presently, the economic and trade relationship between Taiwan and Europe is becoming closer, and the forms and dimensions of exchanges are expanding with every passing day.

**Large Increases in Volume of Trade With Europe**

According to an analytical report by the Euro-Taiwan Trade Organization [Euro-Asia Trade Organization], Taiwan's trade with Europe has greatly increased during the last few years. In 1991, Taiwan's export trade has increased by a mere 1.5 percent, while its exports to Europe increased 11.8 percent. The total value of trade with Europe during the whole year had been \$21.8 billion, accounting for 15 percent of Taiwan's foreign trade. Of this amount, trade with Germany totalled \$5 billion, or about one-fourth of the total; trade with the Netherlands totalled \$2.6 billion; and trade with Switzerland totalled \$830 million. Through April 1991, the value of Taiwan's exports to Europe had increased 21.4 percent compared to the same period last year, and the trade surplus with the European region has increased 270 percent. Economists have forecast that before 1995 Taiwan-European trade's share of the total trade value will have increased to between 22 and 24 percent. By that time, Europe will have become Taiwan's biggest trading partner.

In Taiwan-European trade, the commodity mix exported to Europe has undergone an important change. Products from technology-intensive and capital-intensive industries have replaced products from labor-intensive industries, and they have become the volume items shipped to Europe. First on the list among Taiwan's exports to Europe last year were boilers, machinery, and mechanical equipment, accounting for 27.1 percent of the total value of commodities shipped to Europe. Next came electro-mechanical equipment and parts, which accounted for 20.5 percent of all shipments to Europe.

**Seizing the Opportunity, Establishing Trading Bases**

Another characteristic of recent Taiwan-European relations is using whatever time is still left to enter the European market and establish trading bases before the common market is completely integrated. According to statistics from relevant authorities on Taiwan, the number of Taiwan firms investing in Europe and establishing trading establishments in the last year increased

steeply, rising to 300; this is double the number for the same period the previous year. The fastest increase—namely a total of 200 firms—has been in German territory, which is ahead of all other European countries in this respect. Only 25 firms had established themselves in the Netherlands by January 1990; now there are 70 firms, so that the Netherlands ranks second in this area.

Taiwan's banking institutions were not slow to follow the rapidly growing stream of Taiwan firms establishing themselves in Europe. The banks vied with each other to be first in serving trade and providing monetary support. Up to now, Taiwan's First Commercial Bank, Bank of Communications, and the [International] Commercial Bank of China have set up branches or offices in London, Frankfurt, and Amsterdam, while the Bank of Taiwan, the Hua Nan Commercial Bank, Limited, the Chang Hwa Commercial Bank, Limited, and the City Bank of Taipei are also now planning to establish their head branches at the mentioned places.

In addition, interest is rapidly increasing to establish trading bases in Europe. As Taiwan newspapers report, Taiwan's "China External Trade Development Council" [CETRA] has gone to Moscow to establish an office there, and after certain setbacks the efforts reached the countdown stage a few days ago. It is reported that the office will definitely open before the end of the year.

**Comprehensive Assault on the European Market**

As Taiwan authorities pursue their policy of energetically trying to diversify their economy and of encouraging Taiwan businessmen to invest, start production, and establish footholds in Europe, relevant organizations on Taiwan are also adopting a variety of commensurate support measures and initiating, through various channels, a comprehensive assault on the European market.

Taiwan's "CETRA" has recently determined its new strategy for the 1992 fiscal year: Raising the image of Taiwan products, greater diversification of markets, expansion of exports, active development of new markets, and assisting manufacturers to establish marketing or production bases abroad.

Since the early spring of this year, Taiwan has organized a series of important economic and trade missions to Europe. The most impressive in terms of size was "the Sino-French Industry and Technology Cooperation and Investment Investigation Group." This delegation was led by Yang Shih-chien [2799 0013 4873], director of the Industrial Development Bureau in Taiwan's "Ministry of Economic Affairs," and was made up of more than 70 participants. The delegation with the most official appearance was a large delegation of 64 persons which visited five European countries. The delegation was led by Chiang Ping-kun [3068 0014 0981], vice minister of Taiwan's "Ministry of Economic Affairs." This delegation was also the highest-ranking Taiwan delegation ever to visit the Soviet Union.

CETRA, in addition to establishing Taiwan trade centers in Dusseldorf, Hamburg, and Rotterdam, also plans to establish a similar organization in Paris. In its "Plan for Economic and Trade Development in the Five Newly Formed Development Regions," a plan that has just been completed and that will apply to the 1992 fiscal year, the Taiwan "Ministry of Economic Affairs" listed Europe behind the Middle East as key development regions. It intends to take advantage of the end of the Persian Gulf War and the stabilization of oil prices, when the total global economic outlook will become more optimistic, to initiate a completely new situation, and go at it with all its strength.

#### **Attracting European Capital with Favorable Treatment Privileges**

At the same time Taiwan musters its forces for an assault on the European market, it also takes great pains to attract European capital. In its "Six-Year National Development Plan," Taiwan tries to raise private capital by attracting large private domestic enterprises to invest, by means of favorable treatment privileges and by issuing domestic public bonds within its borders. It is also sparing no effort to attract foreign capital.

At the same time, Taiwan's "Ministry of Economic Affairs" is also adapting a rather unique approach through its carefully worked out "small European plan." The purpose of this plan is to attract European manufacturers of name-brand, everyday products to come to Taiwan and start production with joint capital, or to start joint-venture production. To achieve this objective, Liu Ting-tsu [0492 1694 4371], secretary general of "CETRA," paid special visits to six European manufacturers of name-brand products in March.

#### **Reasons for Intensified Efforts at Economic and Trade Exchanges With Europe**

The four main reasons for Taiwan's recent intensified efforts to develop economic and trade exchanges with Europe follow:

1. To break down the protective barriers around the European market and broaden channels for exporting to Europe.
2. To offset the huge trade deficit with Japan and accelerate the internationalization of trade. For quite some time Taiwan's bilateral trade has been in a deficit position, because of its ever-growing dependence on Japan since the start of the 1980's and because of the rather low quality of its products. To change this negative situation, Taiwan authorities energetically encourage firms to invest, manufacture, establish bases, and open new markets in Europe, accelerate the internationalization of trade, and thus gain a wider space for the very existence of its industry.
3. To induce the upgrading of Taiwan's industrial structure and support enhancement of the Asia market. As far as Taiwan is concerned, attracting European capital and advanced technologies will kill two birds with one stone. On the one hand, it could give impetus to the upgrading of local industrial structures and accelerate the rhythm of economic transformation. On the other hand, it could encourage European economic and technological strength to extend to the Asian market.
4. To escape Taiwan's dilemma of international isolation by relying on its economic strength.

Based on the above-mentioned reasons, one can still consider Taiwan's tendency toward enhancing development of economic and trade relations with Europe as very strong. In the future this will show up in the greatly expanding scope of new development.

### June Economic Performance Receives Good Rating

OW2907131891 Taipei CNA in English 0858 GMT  
29 Jul 91

[Text] Taipei, July 29 (CNA)—The Republic of China's economic performance monitor signaled a safe "green" rating in June for the first time since March 1990, an indication that the economy is back on a course of steady growth after 15 months of downward movement, the Council for Economic Planning and Development (CEPD) reported over the weekend.

CEPD uses a five-color rating system to report on the country's economic situation: red, yellow red, green, yellow blue, and blue. Red means the economy is overheated; green implies all is well; and blue signals an economic slowdown.

The composite index the council uses to measure the country's monthly economic performance, registered 24 points in June, higher than the 23 points required for a green rating, CEPD said.

The composite index includes a range of indices that include industrial production, export orders placed with manufacturers, the money supply, stock prices, and the check default rate.

The domestic economic performance lingered at the "yellow-blue" slowdown level for most of the past 15 months with the exception of June and December 1990, when the composite index signaled a serious recession "blue."

The "green light" for June's economic performance was issued mainly because of surges in the narrowly defined M1B [as received] money supply, stock prices, and industrial production, CEPD officials said.

The June index of leading indicators, which measures economic performance for the next three months, rose 2.14 percent from May to a two-year high of 111.45, the officials said. It was the largest single-month rise, which, the officials noted, suggests an even stronger economic growth in the months ahead.

Li Kao-tsao, director of CEPD's Economic Research Department, said that June's economic performance will help boost consumer spending and private investment. This will in turn accelerate an economic recovery that started early this year.

Private investment registered a 6.52 percent decline in the first quarter of this year and is expected to post a barely perceptible 0.59 percent gain in the second quarter, the Directorate General of Budget, Accounting and Statistics (DGBAS) reported.

With domestic and global economies regaining momentum in recent months, DGBAS forecast private investment will rebound in the second half of the year. It is expecting domestic private investment to grow 1.7

percent in the third quarter and 6.28 percent in the fourth quarter. The average annual growth rate is estimated at 1.48 percent.

### CETRA Reports Increase in Trade With Latin America

OW0308093491 Taipei CNA in English 0758 GMT  
3 Aug 91

[Text] Taipei, Aug. 3 (CNA)—Taiwan exports to Latin American countries totaled 725.3 million US dls in the first half of this year, a 26.2 percent increase over the same period of 1990 and imports reached 869.5 million US dls, up 45.4 percent, China External Trade Development Council (CETRA) reported today.

Major import items from that region are raw materials including steel, iron, and copper, while exports are mostly electronic parts.

CETRA said that the economies of Central and South American countries have turned for the better and that Brazil, in particular, will open its market to imports of foreign information products in November of this year.

CETRA said it will organize a trade mission soon to visit Panama, Brazil, Argentina, and Chile to promote trade with those countries.

In addition to trade promotion in that part of the world, a fishery cooperation agreement between Taiwan and Brazil was signed in May 1991.

Wang Ho-lou, director of the Ocean Fishery Development Department of the Vocational Assistance Commission for Retired Servicemen, said that his department will provide the latest fishery information on Brazil for Taiwan fishermen to facilitate their operation there.

### Using Foreign Reserves for Development Considered

OW0708140191 Taipei CNA in English 0821 GMT  
7 Aug 91

[Text] Taipei, Aug. 7 (CNA)—Premier Hao Po-tsun Tuesday ordered finance authorities to study the feasibility of using the country's huge foreign reserves to promote industrial development here.

Hao made his instruction at a breakfast after being briefed by Shirley Kuo, chairwoman of the Council for Economic Planning and Development on the nation's new industrial development policy.

The premier said the country has some 75 billion U.S. dollars [as published] in foreign reserves, one of the world's largest. "We may consider using part of this huge asset to finance imports of capital goods in order to boost our industrial development," he noted.

Reporting on the same occasion, Shirley Kuo said the country must adopt forward-looking policy and measures to accelerate industrial upgrading.



Kuo suggested that the Executive Yuan's development fund and the Bank of Communications strengthen investments in high-tech industries and provide more loans for high-tech companies to engage in research and development.

Research institutions should accelerate transfer of new technologies to private companies for practical use, Kuo said.

Other highlights in Kuo's report included upgrading of such basic industries as steel and petrochemicals, modernization of telecommunications service and facilities, construction of new industrial zones to house high-tech industries and establishment of a comprehensive information service network.

### **Family Incomes Up, Income Gap Widens**

*OW1008115791 Taipei CNA in English 0823 GMT  
10 Aug 91*

[Text] Taipei, Aug. 10 (CNA)—Family income has increased steadily in Taiwan, but the income gap between the richest and the poorest groups has widened over the past decade, a government statistical agency reported today.

Disposable income reached an average of 520,147 NT dlr (19,265 US dlr) per household in 1990, an increase of 13.29 percent over 1989, the Directorate General of Budget, Accounting and Statistics (DGBAS) said.

The income gap between the richest and the poorest families widened to 5.18 times last year from 4.95 times in 1989, DGBAS tallies show. It was the largest difference since 1980 when the gap was 4.17 times.

DGBAS divides local families into five groups in terms of their annual income. The disposable income of the average rich-bracket family was one million NT dlr in 1990, compared to 193,685 NT dlr for each poor-group family. Disposable income means money remaining after taxes and noncommercial government fees have been paid.

The number of families in the rich-bracket accounted for 38.6 percent of total households in the country, while that in the poorest group made up a mere 7.45 percent.

DGBAS officials attributed the widening of the income gap between upper-scale and lower-scale families to several reasons;

—with technology-intensive industry becoming the mainstay of the Taiwan economy, engineers and skilled workers get higher pay than unskilled workers. Salaries for those with professional expertise or skills have risen 1.4 times over the past decade, compared with a 1.2-fold gain for those in the service sector and a 0.8-fold advance in the agricultural sector;

—the income gap between the better educated and the less educated widened further to 2.3 times in 1990 from 2.1 times 10 years ago;

—the structure of the Taiwan family is changing, with well-paid younger family members leaving parents to form their own "nuclear" families. As a result, the number of families whose members are mostly senior citizens has increased. The share of families with a household head over 65 years old in the poorest group rose to 24.4 percent last year from 9.9 percent in 1980.

### **Directorate Predicts GNP Will Rise**

*OW1308110591 Taipei CNA in English 0905 GMT  
13 Aug 91*

[Text] Taipei, Aug. 13 (CNA)—The gross national product of the Republic of China [ROC] is expected to reach 178.4 billion U.S. dollars in 1991, up from 160.9 billion U.S. dollars in 1990, the Directorate General of Budget, Accounting and Statistics (DGBAS) predicts.

Per capita GNP is predicted to reach 8,718 U.S. dollars this year from last year's 7,953 U.S. dollars.

The ROC's economic growth rate is expected to rise to 6.95 percent in 1991 from last year's 5.02 percent, DGBAS said. The economy grew 6.2 percent and 7.11 percent in the first and second quarters of this year and is predicted to reach 7.28 percent and 7.17 percent in the third and fourth quarters, for an annual growth rate of 6.95 percent, DGBAS stated.

Growth is predicted to fall slightly to 6.85 percent in the first half of 1992 with first quarter and second quarter growth reaching 6.91 percent and 6.8 percent respectively, DGBAS added.

### Obstacles Faced by Reporters Covering Mainland 91P30173

[Editorial Report] The Hong Kong Chinese-language journal PAI HSING [THE PEOPLE] of 16 June 91 pages 15-16, carried an article by Cheng Yen-chih [6774 6056 1807] describing how Hong Kong journalists in China find their work hampered by a variety of external and internal restrictions since the Tiananmen incident two years ago.

Cheng observes that there is a sharp difference between the Hong Kong media's observance of the Tiananmen anniversary this year compared to last year. Last year, the Hong Kong media produced detailed reports on the democracy movement. This year, except for a few activities sponsored by Hong Kong's two major television stations to mourn Tiananmen, few of Hong Kong's major newspapers made any attempt to reflect on the past or future of the democracy movement. Cheng comments that "the Hong Kong media's diluted treatment of the second Tiananmen anniversary reflects to a certain extent the difficult situation facing Hong Kong media circles since 4 June [1989], of which the ones to suffer the most have been the front-line journalists covering the news in China."

Cheng notes that since Tiananmen, the PRC government has clamped down on the activities of Hong Kong reporters both in Hong Kong and in the PRC by means of psychological intimidation and law. For the past two years, the Hong Kong branch office of the XINHUA News Agency has increasingly tightened its watch over Hong Kong journalists. When one journalist wrote a news report that officials in the Hong Kong XINHUA office found to be objectionable, they alerted their superiors. These various "invisible hands" of the PRC, Cheng says, "severely threaten" journalistic freedom in Hong Kong.

To control the activities of Hong Kong journalists in China, the Hong Kong and Macao Affairs Office of the PRC State Council promulgated seven regulations in October 1989 which forbade Hong Kong and Macao reporters from entering China without 14 days prior application, inquiring about subjects beyond those for which they had applied, and conducting telephone interviews. (Other restrictions include having to leave China within a specified time, having to obtain local permits, and not being allowed to do any reporting while in the country to visit relatives or to travel. For further details on the regulations, see FBIS-CHI-89-207 p 43.)

Cheng cites examples of how these restrictions have "totally eliminated the journalists' freedom to conduct inquiries or pursue news sources, and have severely hampered their work." In January, when the PRC government put on trial the students and intellectuals who had participated in the 1989 democracy movement, a pair of Hong Kong journalists representing a television station and a newspaper attempted to cover the trials.

When the official of the All-China Journalists' Association in charge of overseeing reporters from Hong Kong, Macao, and Taiwan found out about this, he "summoned" the two journalists, showed them the seven regulations, and "sternly warned" them that they would "assume responsibility" for the consequences of violating the regulations.

The restrictions' greatest damage, says Cheng, has been the psychological "intimidation" resulting from the "blacklist" that it effectively created. Cheng says that China uses the "blacklist" to bar reporters who dare to criticize the government from firsthand access to news sources, and to "punish" reporters it considers "unfriendly," by refusing them entry into China. Thus, in order to avoid being put on the "blacklist," Hong Kong reporters working in China are "exceedingly cautious in their treatment of the news and in their reporting." In March, some Hong Kong reporters in Beijing obtained details of the latest activities of released democracy activists, and requests made by relatives of activists who had been sentenced. The reporters felt, however, that "the big picture was more important," and chose not to report on this sensitive data at the time in order to avoid violating the regulations and getting those whom they had interviewed into trouble. When they returned to Hong Kong, they published the information, but in such a way as to leave no trace of people's identities. Many Hong Kong reporters in Beijing at the time of the trials simply "did not dare take half a step into the mine field" or do anything that could possibly incur the displeasure of the authorities out of fear of that they would be denied entry into China at a future date. As a result, many Hong Kong reporters simply "never said a single word" about the trials in the reports they filed back to Hong Kong, and voluntarily chose to stay away from the relatives of the accused.

Cheng notes that Hong Kong journalists in China find that the constant fear of getting their news sources into trouble is an "enormous adversity" in their work. To break the news blockade that China has imposed on foreign media over the past two years, Hong Kong reporters have frequently conducted secret interviews or sent telegrams in order to obtain firsthand information. However, the people that they contact stand in constant danger of retaliation by the Chinese authorities, a situation which causes the journalists to bear a "heavy psychological burden."

Cheng points out other restrictions that Hong Kong journalists face on their end. The news industry in Hong Kong is "fiercely competitive." In order to gain an advantage over their competitors in obtaining news sources, some Hong Kong media bosses go to great lengths to develop friendly relations and connections in the PRC. Newspaper bosses are careful to avoid giving the PRC any reason to be "unhappy" with their treatment or even layout of the news. These concerns on the part of media management affect front-line Hong Kong journalists in China because their reportage is subject to close scrutiny and "distortion" by their bosses.

In the face of these obstacles, Hong Kong journalists feel completely helpless and some have adopted the attitude of lying low. Cheng notes that they take care to avoid offending the PRC on the one hand, and to actively develop "friendly relations" on the other. They "justify"

this posture by saying that they must "preserve their lives in order to be of any use, and must retain their strength in order to prepare for a long-term struggle." They also hope that such a tactic will enable them to exercise a larger journalistic role one day.

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